This Listing Statement is compiled by the Exchange from documents filed by the Company in making application for listing. It is issued for the information of members, member firms and member corporations of the Exchange. It is not and is not to be construed as a prospectus. The Exchange has received no consideration in connection with the issue of this Listing Statement other than the customary listing fee. The documents referred to above are open for inspection at the general office of the Exchange.

LISTING STATEMENT NO. 2426.

LISTED JANUARY 16, 1970.

56,861,436 Common shares of $5.00 par value of which 13,307,474 shares are subject to issuance.
Stock Symbol "ARC".
Post Section 10.
Dial Quotation No. 2345.

THE TORONTO STOCK EXCHANGE

LISTING STATEMENT

ATLANTIC RICHFIELD COMPANY

Incorporated in 1870 under the Laws of Pennsylvania, U.S.A.

CAPITALIZATION

The following table sets forth the capitalization of Atlantic Richfield Company and its consolidated subsidiaries at July 31, 1969.

Short Term Debt: (in thousand dollars)	
Notes payable, at various interest rates	$220,154
Long term debt due within one year	18,997
Total Short Term Debt	$239,151
Long Term Debt: (in thousand dollars) (Note 1)	
Twenty-five year 2.85% debentures, due October 1, 1974	$ 12,500
Twenty-five year 3¼% debentures, due January 15, 1979	38,500
Thirty year 3.85% debentures, due June 1, 1983	29,000
Thirty year 5⅝% debentures, due May 15, 1997	100,000
Twenty-five year 2⅞% debentures, due December 1, 1972	7,950
Twenty-five year 3% debentures, due November 1, 1974	50,000
Twenty-five year 4.60% debentures, due December 15, 1988	144,000
4½% notes payable, due in semi-annual installments of $4,687,500 to February 15, 1975	46,875
Notes under Revolving Credit Agreement, at prevailing interest rates (Note 2)	216,850
5¾% guaranteed notes, due May 1, 1972	15,000
Twenty-five year 3⅜% debentures, due August 1, 1975	18,200
5% notes payable, due in annual installments of $610,000 to September, 1992	13,410
4⅜% convertible subordinated debentures, due April 15, 1983	606
4⅜% convertible subordinated debentures, due December 1, 1986	46,023
Other long term debt	11,865
Total Long Term Debt	$750,779
Capital Stock: (Notes 3 and 4)	
Cumulative preferred stock, par $100:	
Authorized and issued—3.75% Series B	352,000 shs.
$3.00 cumulative convertible preference stock, par $1:	
Authorized 4,230,849 shs.—Issued	2,902,648 shs.
$2.80 cumulative convertible preference stock, par $1:	
Authorized 15,250,000 shs.—Issued	11,511,171 shs.
Common stock, par $5 (Note 4):	
Authorized 75,000,000 shs.—Issued	43,530,364 shs.*

*Excludes 23,598 shares held in treasury.

Note 1—Reference is made to Notes 8 and 10 of "Notes to Consolidated Financial Statements" appearing on pages 48 and 49 in Exhibit 1 hereto for information as to annual sinking fund and installment requirements and as to commitments under long term leases and contingent liabilities as at December 31, 1968, and June 30, 1969. There has been no material change in these items since December 31, 1968, except as described in the "Recent Developments" section appearing on pages 11, 12, and 13 in Exhibit 1 hereto.

Note 2—The Agreement provides for the borrowing by the Company of up to $432,500,000 in aggregate principal amount at any one time outstanding, such borrowings to be evidenced by Revolving Credit Notes until December 31, 1970, and thereafter to be evidenced until maturity by Term Notes due in eight equal semi-annual installments beginning June 30, 1972.

Note 3—Reference is made to Note 14 of "Notes to Consolidated Financial Statements" appearing on page 53 in Exhibit 1 hereto for information as to the preferential rights of the preference stock and the aggregate preferential amounts as at December 31, 1968.

Note 4—As of July 31, 1969, a total of 13,684,702 additional shares of Common Stock were issuable upon the exercise of all rights (including convertible securities) outstanding entitling the holders thereof to acquire Common Stock.

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1. APPLICATION

ATLANTIC RICHFIELD COMPANY (hereinafter called the "Company") hereby makes application for the listing on The Toronto Stock Exchange of 56,861,436 shares of Common Stock of the Company, par value $5.00 per share, of which 43,553,962 shares have been issued and are outstanding as fully paid and non-assessable. The remaining 13,307,474 shares included in this Application have been reserved for issuance upon exercise of all rights (including convertible securities) outstanding and options to be granted under the Company's Stock Option Plans and awards to be made under the Company's Incentive Compensation Plan.

2. HISTORY

The Company was incorporated in 1870 under the laws of Pennsylvania. Its principal executive offices are at 717 Fifth Avenue, New York, N.Y. The Company's present name was adopted on May 3, 1966, subsequent to the merger of Richfield Oil Corporation into The Atlantic Refining Company on January 3, 1966. On March 4, 1969, Sinclair Oil Corporation was merged into Atlantic Richfield Company, which is the surviving corporation.

Reference is made to the discussion on pages 11, 12, and 13 under the caption "Recent Developments" in Exhibit 1 hereto.

3. NATURE OF BUSINESS

The Company with its subsidiaries is engaged in the exploration for, and development, production, purchase, transportation and sale of, crude petroleum and natural gas, and in the manufacturing, transportation and marketing of petroleum products derived from crude oil, including petrochemicals. Operations are conducted principally in the United States. The Company also obtains substantial quantities of crude petroleum from its interests in properties in a number of foreign countries which it either sells outside the United States or imports for use in its refineries. It also sells certain of its refined products in Europe and elsewhere in the world markets. The Company, with its subsidiaries, comprises one of the large integrated enterprises in the petroleum industry.

Reference is made to pages 20 through 29 of Exhibit 1 hereto.

4. INCORPORATION

The Company was organized under the laws of Pennsylvania in 1870. The Articles of Incorporation have been amended on several occassions. The last amendment and re-statement, effective March 4, 1969, provides that the aggregate number of shares which the Company shall have authority to issue is 94,832,849 shares, to be divided into four classes consisting of (a) 352,000 shares of 3.75% Cumulative Preferred Stock of the par value of $100.00 each, (b) 4,230,849 shares of $3.00 Cumulative Convertible Preference Stock of the par value of $1.00 each, (c) 15,250,000 shares of $2.80 Cumulative Convertible Preference Stock of the par value of $1.00 each, and (d) 75,000,000 shares of Common Stock of the par value of $5.00 each.

5. COMMON STOCK ISSUED DURING PAST TEN YEARS

The following transactions resulted in the issuance of Common Stock during the past ten years ended August 31, 1969, (adjusted for 2 for 1 stock split in July 1968):

	No. of Shares	Amount Realized
1. Public Offerings	1,500,000	$168,000,000
2. Shares issued upon the exercise of options	739,486	17,706,000
3. Shares issued upon the conversion of senior securities	15,806,155	(A)
4. Shares issued in exchange for property or other assets	7,721,843	(B)
5. Shares issued as incentive awards	10,914	(C)

(A) Shares issued for the conversion of Senior Securities:

4½% Convertible Subordinated Debentures	—	3,408,470 shares	— $5 par common
4⅜% Convertible Subordinated Debentures	—	505,616 shares	— $5 par common
$3.00 Preference Stock	—	11,886,610 shares	— $5 par common
$2.80 Preference Stock	—	5,459 shares	— $5 par common
Total		15,806,155	

(B) Shares issued in exchange for property or other assets:

Massachusetts Plastics Corporation	—	70,946 shares	— $5 par common
G&D Realty Trust	—	21,818 shares	— $5 par common
Petro Gas Producing Company	—	62,720 shares	— $5 par common
Hondo Oil & Gas Company	—	1,000,000 shares	— $5 par common
Nuclear Materials and Equipment Corporation	—	169,046 shares	— $5 par common
Sinclair Oil Corporation	—	6,397,313 shares	— $5 par common
Total		7,721,843	

(C) Shares issued under Incentive Compensation Plan.

6. STOCK PROVISIONS AND VOTING POWERS

Reference is made to "Description of Capital Stock of Atlantic Richfield" on pages 37, 38, and 39 of Exhibit 1 hereto.

7. DIVIDEND RECORD

Reference is made to page 7 under the caption "Dividends" in Exhibit 1 hereto.

8. RECORD OF PROPERTIES

Reference is made to pages 20 through 29 of Exhibit 1 hereto.

9. SUBSIDIARY COMPANIES

Name of Company	Organized under laws of	Percentage of ownership
Included in consolidated financial statements:		
Arco Limited	Delaware	100.00
Arco Pipe Line Company	Delaware	100.00
Atlantic Automobile Adventure Club, Inc.	Delaware	100.00
Atlantic Exploration Company	Delaware	100.00
Atlantic Oil Producing Company	Delaware	100.00
Atlantic Pipe Line Company	Pennsylvania	100.00
Atlantic Richfield Hanford Company	Delaware	100.00
Atlantic Richfield International Finance Corp.	Delaware	100.00
Atreco, Inc.	Delaware	100.00
Atreco Investment Company	Delaware	100.00
Bellox Corporation	Delaware	100.00
Bolivian Atlantic Corporation	Delaware	100.00
Border Pipe Line Company	Delaware	100.00
Candel International Limited	Bermuda	100.00
Casitas Pipe Line Company	Delaware	100.00
Cheviot Hills Pipe Line Company	Delaware	100.00
Colombia Altantic Petroleum Co.	Delaware	100.00
Cuyama Pipe Line Company	Delaware	100.00
Cuyama Valley Community Inc.	California	100.00
Hondo Oil and Gas Company	New Mexico	100.00
Iran Atlantic Company	Delaware	100.00
Joaquin Ranch Company	Delaware	100.00
Libyan Atlantic Company	Delaware	100.00
Mesa Pipe Line Company	Delaware	100.00
Nuclear Materials and Equipment Corp.	Delaware	100.00
Palomar Land Company	Delaware	100.00
Petroleum Tankers, Inc.	Delaware	100.00
Philadelphia Tankers, Inc.	Delaware	100.00
Richfield Iranian Offshore Petroleum Co.	Liberia	100.00
Richfield Netherlands Petroleum Co.	Delaware	100.00
Rossoe, Inc.	Washington	100.00
San Marino Tankers, Inc.	Liberia	100.00
Sinclair Canada Oil Company	Delaware	100.00
Sinclair Caribbean Oil Company	Delaware	100.00
Sinclair Colombian Oil Company, Inc.	Delaware	100.00
Sinclair International Oil Company	Delaware	100.00
Sinclair-Koppers Company	Uniform Partnership Act of State of Delaware	50.00
Sinclair Overseas Petroleum Company	Delaware	100.00
Sinclair Petroleum Company, Inc.	Delaware	100.00
Sinclair Trading Company	Delaware	100.00
Sinclair Venezuelan Oil Company	Delaware	96.99
Stingray Tanker Corporation	Liberia	100.00
Tanker Transport, Inc.	Liberia	100.00
Venezuelan Atlantic Refining Co.	Delaware	100.00
Venezuelan Atlantic Transmission Corp.	Delaware	9.00
Venezuelan Atlantic Transmission Corp.	Delaware	91.00

Name of Company	Organized under laws of	Percentage of ownership
Not included in consolidated financial statements:		
Atlantic Petroleum, Limited	United Kingdom	100.00
Buckley & Scott Co.	Delaware	80.54
Calumet Creek Oils Limited	Canada	100.00
Companhia Atlantic de Petroleo	Brazil	100.00
Empresa Carioca de Produtos Quimicos	Brazil (67.50 owned by Companhia Atlantic de Petroleo)	32.50
Griffith-Consumers Company	Delaware	100.00
Jung, Atlantic Refining GmbH	West Germany	100.00
Major Petroleum Company	Delaware	100.00
O'Brien Oil Corp.	Delaware	100.00
Sinclair Mediterranean Petroleum Company	Delaware	100.00
Thrif-T-Gas, Inc.	Missouri	100.00

The subsidiaries whose names are not listed above (94 subsidiaries, of which 36 are consolidated and 12 are 50% owned), if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary. The unconsolidated subsidiaries, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

10. FUNDED DEBT

Reference is made to "Capitalization" on page 14 of Exhibit 1 hereto.

11. OPTIONS, UNDERWRITINGS, ETC.

Reference is made to "Purchase of Sinclair Stock" on page 13; "Stock Options" on pages 35, 36, and 37; and "Financial Statements of the Company" on pages 40 and 41 of Exhibit 1 hereto.

12. LISTING ON OTHER STOCK EXCHANGES

Security	New York Stock Exchange	Philadelphia-Baltimore Washington Stock Exchange	Mid-West Stock Exchange	Pacific Coast Stock Exchange
Common Stock	X	X	X	X
$2.80 Preference Stock	X		X	
$3.00 Preference Stock	X			X
Preferred Stock	X			
4⅜% Convertible Subordinated Debentures, due April 15, 1983	X			
4⅜% Convertible Subordinated Debentures, due December 1, 1986	X			
Twenty-five year 4.60% Debentures, due December 15, 1988	X			

13. STATUS UNDER SECURITIES ACTS

During the past 10 years the Company has filed registration statements with the United States Securities and Exchange Commission with respect to the public offering of $100,000,000 principal amount of Thirty Year 5⅝% Debentures due 1997 (filed in 1967); 1,500,000 shares of Common Stock (filed in 1969); 500,000 shares of Common Stock (filed in 1969); and 2,370,000 shares of Common Stock (filed in 1969). It has also filed several registration statements with respect to Common Stock to be offered pursuant to employee thrift plans and stock option plans.

14. FISCAL YEAR

The fiscal year of the Company ends on December 31st in each year.

15. ANNUAL MEETINGS

The By-Laws of the Company provide that an annual meeting of shareholders for the election of directors and the transaction of such other business as may properly come before the meeting shall be held on the first Tuesday in May of each year, at 9:30 a.m., Eastern Standard Time, or at such other hour as the Board of Directors may designate. If the day fixed for the meeting is a legal holiday, the meeting shall be held at the same hour on the next succeeding full business day which is not a legal holiday. Each annual meeting of shareholders shall be held at the principal office of the Company or at such other place in Pennsylvania or elsewhere as the Board of Directors may designate.

16. HEAD AND OTHER OFFICES

The head office is located at 717 Fifth Avenue, New York, N.Y. The Company has major offices in Philadelphia, Pennsylvania; Dallas, Texas; Chicago, Illinois; and Los Angeles, California.

PROSPECTUS

EXCHANGE OFFER
TO HOLDERS OF COMMON STOCK OF

Cities Service Company

2,370,000 Shares

Atlantic Richfield Company

Common Stock
(Par Value $5)

EXCHANGE OFFER

Cities Service Company ("Cities") hereby offers to exchange 2,370,000 shares of Common Stock ("Atlantic Richfield Common Stock") of Atlantic Richfield Company ("Atlantic Richfield") owned by Cities for shares of Cities Common Stock in the ratio of

1 SHARE OF ATLANTIC RICHFIELD COMMON STOCK
for
2 SHARES OF CITIES COMMON STOCK

Holders of $4.40 Cumulative Convertible Preferred Stock of Cities ("Cities Preferred Stock") and holders of $2.25 Cumulative Convertible Preference Stock of Cities ("Cities Preference Stock") may make arrangements to tender Cities Common Stock by delivering Cities Preferred Stock or Cities Preference Stock, or by converting Cities Preferred Stock or Cities Preference Stock, and then tendering Cities Common Stock, all as more fully set forth herein under "Exchange Offer".

Exchange Offer to Holders of Common Stock of
CITIES SERVICE COMPANY

SUPPLEMENT TO PROSPECTUS DATED OCTOBER 1, 1969

Cities Service Company has extended the Exchange Offer to October 31, 1969. Shares tendered for exchange will be accepted on a first come, first served basis. The Exchange Offer, as extended, will expire at 3:30 P.M. New York Time on October 31, 1969, unless further extended or terminated at an earlier date due to complete subscription.

Dated: October 23, 1969.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The First Boston Corporation — Loeb, Rhoades & Co.

The date of this Prospectus is October 1, 1969.

SUMMARY OF EXCHANGE OFFER

A complete description of the Exchange Offer is contained on pages 2 to 10 of this Prospectus and should be carefully read, particularly the material under "Allotment in Case of Over-Subscription" commencing on page 4 and "Federal Income Tax Consequences of the Exchange" commencing on page 5. The following summary does not purport to be complete and should be read in conjunction with the more complete information on the pages referred to.

Terms of Offer (Page 2): This is an Exchange Offer by Cities Service to exchange 2,370,000 shares of Atlantic Richfield Common Stock owned by Cities Service for shares of Cities Service Common Stock in the ratio of one share of Atlantic Richfield Common Stock for each two shares of Cities Service Common Stock.

Stockholders Tax Consequences (Pages 5 and 6 and Appendix): Whether the exchange will result in a capital gain or loss to an exchanging stockholder, or whether it will be regarded as a dividend to such stockholder, depends upon the stockholder's ability to satisfy the statutory requirements set forth under "Federal Income Tax Consequences of the Exchange" and in the Appendix which should be read carefully. Basically any stockholder who exchanges at least 32.6% of the holdings, direct or constructive, of the aggregate Cities Service stock owned or deemed to be owned by such stockholder will realize gain or loss in the amount of the difference between the market value of the Atlantic Richfield Common Stock (at the Expiration Date) plus cash received on conversion or tender of Cities Service Preferred or Preference Stock and his cost or other tax basis in Cities Service Common Stock exchanged. If the latter is a capital asset of such stockholder, the gain or loss will constitute capital gain or loss, which will be long-term if the Cities Service Common Stock exchanged was held for more than six months. Stockholders having tax questions should consult their own tax counsel.

Business of Atlantic Richfield and Cities Service (Pages 11 and 54): Atlantic Richfield with its subsidiaries is engaged in the exploration for, and development, production, purchase, transportation and sale of, crude petroleum and natural gas, and in the manufacturing, transportation and marketing of petroleum products derived from crude oil, including petrochemicals.

Cities Service is primarily a holding company owning securities of companies which operate in the natural resources fields. The primary areas are in energy and chemicals, including petroleum and natural gas, natural gas transmission, carbon black, petrochemicals, plastics, copper, copper products, plant foods and graphic arts materials.

Comparative Market Prices (Pages 6 and 7): The table below sets forth the ranges of the market prices of Cities Service Common Stock, Atlantic Richfield Common Stock, and the market prices (rounded to the higher one-eighth) applicable to .5 share of Atlantic Richfield Common Stock, the amount of such stock receivable upon exchange for each share of Cities Service Common Stock, for the periods indicated:

	One share of Cities Service Common Stock (a)		One share of Atlantic Richfield Common Stock (a)		.5 share of Atlantic Richfield Common Stock (a)	
	High	Low	High	Low	High	Low
Year 1967	$55¾	44¼	54⅞	41⅝	27½	20⅞
Year 1968	84½	43¼	130	48⅛	65	24⅛
Year 1969 (through September 29, 1969)	80	46¼	135¾	93⅛	67⅞	46⅝

(a) Adjusted for 2-for-1 stock splits.

Comparative Dividends Per Share (Pages 7-8): The table below shows dividends per share paid on Cities Service Common Stock and Atlantic Richfield Common Stock during the periods indicated:

	One share of Cities Service Common Stock(a)	One share of Atlantic Richfield Common Stock(a)	.5 share of Atlantic Richfield Common Stock(a)
Year 1967	$1.80	1.48	.74
Year 1968	2.00	1.68	.84
First 3 Quarters 1969	1.50	1.40	.70

(a) Adjusted for 2-for-1 stock splits.

Comparative Earnings Per Share (Pages 8 and 9): The following table shows earnings per share for the periods indicated before extraordinary items and on the assumptions set forth in the introductory paragraph under "Earnings Per Share" on page 8 and is qualified by references to the financial statements of Cities Service and Atlantic Richfield included herein:

	Cities Service earnings		Atlantic Richfield earnings	
	Per Common share outstanding(a)	Pro Forma per Common share outstanding assuming exchange(a)	Per Common share outstanding(a)	Per .5 Common share outstanding(a)
Year 1967	$4.02	$4.58	$3.59	$1.80
Year 1968	3.81	4.34	3.83	1.92
Six Months ended June 30:				
1968	2.09	2.39	1.87	.94
1969	2.16	2.46	2.03	1.02

(a) Adjusted for 2-for-1 stock splits.

Comparative Book Values Per Share: At June 30, 1969, the book value per share of Cities Service Common Stock was $39.84 per common share outstanding and $46.40 Pro Forma per common share outstanding assuming completion of the Exchange Offer; the book value per share of Atlantic Richfield Common Stock was $45.38; and the book value of .5 share of Atlantic Richfield Common Stock (the amount of such stock receivable upon exchange for each share of Cities Service Common Stock) was $22.69. Such computations assume conversion of all convertible securities to equivalent common shares.

North Slope of Alaska

Much of the recent publicity about the North Slope of Alaska has included estimates of amounts of future recoverable oil and gas which have yet to be fully established by adequate development. A Cities Service stockholder in considering the Exchange Offer should rely only on the information about Atlantic Richfield's interest in the North Slope and the present status of exploration on such acreage as set forth on page 21 herein.

EXCHANGE OFFER

Cities hereby offers to exchange 2,370,000 shares of Atlantic Richfield Common Stock owned by Cities for shares of Cities Common Stock in the ratio of

1 SHARE OF ATLANTIC RICHFIELD COMMON STOCK

for

2 SHARES OF CITIES COMMON STOCK

The Exchange Offer will expire on October 22, 1969, unless extended by Cities as provided herein, and is subject to the terms and conditions set forth herein.

No recommendation is made by Cities as to whether any particular stockholder of Cities should or should not exchange Cities Common Stock for Atlantic Richfield Common Stock. Each stockholder must decide for himself, using his own judgment or with independent advice, whether or not to tender shares of Cities Common Stock under the Exchange Offer.

The Federal income tax consequences of exchanging shares of Cities Common Stock (including shares acquired upon conversion of Cities Preferred Stock and Cities Preference Stock) for shares of Atlantic Richfield Common Stock under the Exchange Offer are discussed under "Federal Income Tax Consequences of the Exchange" below and in the Appendix to this Prospectus.

All tenders of shares of Cities Common Stock under the Exchange Offer will be irrevocable, except as provided under "Allotment in Case of Over-Subscription" below with respect to tenders conditioned by tendering stockholders on the acceptance for exchange of a stated minimum number of shares tendered. In this connection, the information referred to under "Federal Income Tax Consequences of the Exchange" and "Allotment in Case of Over-Subscription" below should be carefully considered. Cities reserves the right to withdraw the Exchange Offer only to the extent that exchanges thereunder cannot be consummated as herein provided.

The Exchange Offer is not subject to the receipt of tenders for any minimum aggregate number of shares of Cities Common Stock.

Purpose of the Exchange Offer

In October, 1962, the United States filed a complaint in the U.S. District Court for the Southern District of California seeking, among other things, to require Sinclair Oil Corporation ("Sinclair") and Cities and related companies to divest themselves of their stock of Richfield Oil Corporation ("Richfield"). Prior to the merger of Richfield into Atlantic Richfield on January 3, 1966, Sinclair and Cities entered into a Stipulation (the "Stipulation") with the United States resulting in the dismissal of the Government's complaint. The Stipulation provides, among other things, that within seven years of the effective date of the merger Sinclair and Cities each will divest itself of the $3.00 Cumulative Convertible Preference Stock ("Atlantic Richfield Preference Stock") of Atlantic Richfield acquired in the merger, together with any other Atlantic Richfield stock which it may acquire. See "United States v. Richfield Oil Corporation et al." below for additional information relating to the Stipulation and regarding the number of shares of Atlantic Richfield Common Stock which Cities will own upon the completion of the Exchange Offer.

In April, 1967, Sinclair divested itself of its holdings of Atlantic Richfield Preference Stock. In November, 1968, Cities converted its Atlantic Richfield Preference Stock into Atlantic Richfield Common Stock. In August, 1969, Cities issued and sold $100,000,000 Cities Service Company 6⅝% Debentures Due 1999 with Warrants to purchase 500,000 shares of Atlantic Richfield Common Stock.

Cities' Board of Directors has determined that the Exchange Offer of 2,370,000 shares of Atlantic Richfield Common Stock offered hereby is in the best interests of its stockholders. As noted below under "Federal Income Tax Consequences of the Exchange", Cities has received a ruling of the Commissioner of Internal Revenue to the effect that the distribution by Cities of Atlantic Richfield Common Stock offered hereby in exchange for Cities Common Stock pursuant to the terms of the Exchange Offer will not result in a recognition of taxable gain to Cities.

Cities has not presently determined how it will divest itself of the remaining shares of Atlantic Richfield Common Stock or of any shares not disposed of by the exercise of the above-mentioned Warrants.

Expiration of the Exchange Offer

The Exchange Offer will expire at 3:30 P.M., New York Time, on October 22, 1969 (the "Expiration Date"), except that Cities reserves the right to extend the Exchange Offer, by written notice to the Exchange Agent, which notice shall also be publicly announced. If the Exchange Offer is extended, the Extended Expiration Date shall be at the time specified above on the date set forth in said notice, or any earlier date upon which Cities publicly announces that the Exchange Offer is fully subscribed. Accordingly, all tenders of Cities Common Stock must be made as provided below no later than the Expiration Date or, if the Exchange Offer is extended, no later than the Extended Expiration Date.

Tenders of Cities Common Stock

Holders of Cities Common Stock may tender shares of such stock under the Exchange Offer by delivering certificates representing at least the number of shares of Cities Common Stock they wish to exchange, together with a properly completed and executed Exchange Form, to the Exchange Agent as follows:

The Chase Manhattan Bank (National Association)
Corporate Agency Division
80 Pine Street, 2nd Floor
New York, New York 10015

For the convenience of Cities stockholders, the Dealer Managers or any Soliciting Dealer will assist such holders in making tenders of Cities Common Stock under the Exchange Offer. As noted below under "Solicitation of Tenders and Expenses", Cities will pay fees to the Dealer Managers and to the Soliciting Dealers with respect to shares of Cities Common Stock exchanged through their efforts or facilities.

Holders of Cities Preferred Stock or Cities Preference Stock may arrange for the tender of shares of Cities Common Stock under the Exchange Offer:

(a) by delivering Cities Preferred Stock or Cities Preference Stock to the Exchange Agent for conversion into at least the number of shares of Cities Common Stock they wish to exchange, together with a properly completed and executed Exchange Form; or

(b) by converting Cities Preferred Stock or Cities Preference Stock into Cities Common Stock and delivering certificates representing at least the number of shares of Cities Common Stock they wish to exchange, together with a properly completed and executed Exchange Form, to the Exchange Agent.

Holders of Cities Preferred Stock or Cities Preference Stock should particularly study the data set forth under "Market Information Concerning the Cities Preferred and Preference Stocks" below before deciding whether to participate in the Exchange Offer. All Cities Preferred Stock or Cities Preference

Stock delivered prior to the Expiration Date to the Exchange Agent under the procedure described in (a) above will be fully converted into shares of Cities Common Stock, even if all such shares are not thereafter exchanged for Atlantic Richfield Common Stock for any reason.

Please read carefully the instructions set forth on the applicable Exchange Form. *Neither the Cities Common Stock certificates, the Cities Preferred Stock certificates nor the Cities Preference Stock certificates need be endorsed.* The executed Exchange Form constitutes an assignment. Any irregularities in connection with tenders must be cured within such time as Cities may determine or may be waived by Cities in its sole discretion.

Effective Date of the Exchange

The exchange of shares of Atlantic Richfield Common Stock for shares of Cities Common Stock tendered prior to the Expiration Date will become effective at the Expiration Date. If the Exchange Offer is extended, the exchange of shares of Atlantic Richfield Common Stock for shares of Cities Common Stock tendered after the Expiration Date will become effective at the Extended Expiration Date. On the effective dates tendering Cities stockholders will cease to own the shares of Cities Common Stock exchanged and will become the owners of shares of Atlantic Richfield Common Stock.

It is presently contemplated that, subject to stockholder approval, all shares of Cities Common Stock reacquired by Cities under the Exchange Offer will be retired.

Certificates for the number of shares of Atlantic Richfield Common Stock to which exchanging stockholders of Cities are entitled will be delivered to them as soon as practicable after the Expiration Date and after the Extended Expiration Date, if any. No charge will be made to exchanging stockholders for any documentary or transfer taxes, or for fees or expenses of Cities or of the Exchange Agent in connection with the exchange. All such charges will be borne by Cities. However, documentary or transfer taxes imposed by reason of the issuance of certificates for Atlantic Richfield Common Stock in a name other than that of the registered owner of the Cities Common Stock exchanged will not be paid by Cities.

Allotment in Case of Over-Subscription

If at the Expiration Date more shares of Cities Common Stock have been tendered than can be exchanged for Cities' 2,370,000 shares of Atlantic Richfield Common Stock offered hereby under the terms of the Exchange Offer, the Exchange Agent will allot such shares of Atlantic Richfield Common Stock among the tendering Cities stockholders *pro rata* according to the number of shares of Cities Common Stock tendered for exchange. However, since only even numbers of full shares of Cities Common Stock will be accepted for exchange, the Exchange Agent will round any odd number and resulting fractional shares of Cities Common Stock calculated under such allotment to the next higher or next lower even number of full shares, in its sole discretion.

For the reasons explained below under "Federal Income Tax Consequences of the Exchange", the number of shares of Cities Common Stock which are accepted for exchange from a particular stockholder might affect such stockholder's decision whether or not to participate in the Exchange Offer. Since there is no way to determine the number of shares tendered by any one stockholder which will be accepted under the allotment procedure described above until the Expiration Date, a stockholder may make his tender of shares of Cities Common Stock subject to the condition that a minimum number of such shares, as specified by him, be accepted for exchange by filling in the box on the Exchange Forms under the caption "Conditional Tender", which contains a blank space for entry by the stockholder of the minimum number of shares he is willing to exchange.

If the effect of an allotment in case of an over-subscription would be to reduce a stockholder's right to participate in the exchange below the minimum number of shares he specifies on his Exchange Form, his tender of Cities Common Stock will automatically be regarded as withdrawn, except as provided

below. If some tenders are so withdrawn but sufficient tenders remain to exhaust the 2,370,000 shares of Atlantic Richfield Common Stock offered hereby, the Exchange Agent will allot such shares of Atlantic Richfield Common Stock among the remaining tendering Cities stockholders *pro rata* according to the number of shares tendered, as specified above.

However, if so many conditional tenders are withdrawn that an under-subscription would result, the Exchange Agent, to the extent feasible, will select and accept for exchange such of the withdrawn conditional tenders as shall be sufficient to exhaust such Atlantic Richfield Common Stock as is available. In selecting among such conditional tenders, the Exchange Agent will select by lot and will limit acceptance in each case to the stated minimum number of shares offered for exchange. If any shares of Atlantic Richfield Common Stock remain thereafter, they will be assigned by lot by the Exchange Agent to tendering stockholders whose tenders have not been accepted in full.

If the Exchange Offer is extended beyond the Expiration Date, tenders of Cities Common Stock received between such Date and the Extended Expiration Date will be accepted on a first-come, first-served basis (determined by the time the tenders are actually received by the Exchange Agent) to the extent there are shares remaining of the shares of Atlantic Richfield Common Stock offered for exchange.

Certificates for any shares of Cities Common Stock which are submitted to the Exchange Agent but are not exchanged for Atlantic Richfield Common Stock will be sent to the stockholders who submitted such shares.

Federal Income Tax Consequences of the Exchange

A. *To Cities:*

Cities has received a letter ruling of the Commissioner of Internal Revenue (set forth in the Appendix to this Prospectus) to the effect that no gain or loss, or income, will be recognized to Cities upon the distribution of the Atlantic Richfield Common Stock in exchange for Cities Common Stock pursuant to the terms of the Exchange Offer.

B. *To Exchanging Stockholders:*

Cities has been advised by its counsel, Frueauff, Farrell, Sullivan & Bryan, that counsel would expect that stockholders who exchange shares of Cities Common Stock for shares of Atlantic Richfield Common Stock will be treated for Federal income tax purposes as realizing gain or loss on a "sale or exchange" of Cities Common Stock and will not be required to treat the receipt of Atlantic Richfield Common Stock as a dividend.

Counsel has also advised Cities that a stockholder may make certain that his exchange will be treated as a "sale or exchange" of Cities Common Stock rather than as a receipt of a dividend of Atlantic Richfield Common Stock:

(a) by tendering shares of Cities Common Stock amounting to not less than 32.6% of the aggregate Cities stock owned by him and deemed to be owned by him by reason of the application of constructive ownership rules, and

(b) by conditioning his tender (in the manner outlined above under "Allotment in Case of Over-Subscription") upon acceptance by Cities of a minimum number of shares of Cities Common Stock which is not less than 32.6% of the aggregate Cities stock owned or deemed to be owned by him.

The Appendix to this Prospectus contains more detailed information which may be of interest to tax counsel for Cities stockholders, concerning the letter ruling of the Commissioner of Internal Revenue, the application of constructive ownership rules and the tax treatment of conversion of the Cities Preferred Stock and Cities Preference Stock.

Counsel further advises that if the exchange of Cities Common Stock for Atlantic Richfield Common Stock is treated as a "sale or exchange" of the Cities Common Stock, an exchanging stockholder would recognize capital gain or loss (except in the case of dealers in the stock acting as such) equal to the difference between (i) the market value of the Atlantic Richfield Common Stock at the Expiration Date, with respect to exchanges which become effective at such Date, or the Extended Expiration Date with respect to exchanges which become effective at such Date, and (ii) the stockholder's cost or other tax basis for the Cities Common Stock surrendered. Such capital gain or loss would be a long-term capital gain or loss with respect to those shares of Cities Common Stock surrendered for which the stockholder's holding period is more than six months and would be short-term capital gain or loss with respect to those shares surrendered for which the stockholder's holding period is six months or less.

Solicitation of Tenders and Expenses

The First Boston Corporation, 20 Exchange Place, New York, N. Y. 10005, and Loeb, Rhoades & Co., 40 Wall Street, New York, N. Y. 10005, as Dealer Managers, have entered into an agreement with Cities, whereby they have agreed to form and manage a group of securities dealers ("Soliciting Dealers"), including the Dealer Managers, to solicit exchanges under the Exchange Offer. The Dealer Managers will execute an agreement with each Soliciting Dealer which will provide for the payment to such Soliciting Dealer of fees as set forth on the cover page of this Prospectus for exchanges effected through the efforts or facilities of such Soliciting Dealer, as evidenced by the appearance of such Soliciting Dealer's name on Exchange Forms.

Cities also will pay the Dealer Managers fees as set forth on the cover page of this Prospectus as compensation for their services as Dealer Managers. The agreement with the Dealer Managers provides that Cities will indemnify the Dealer Managers and the Soliciting Dealers against certain civil liabilities, including liabilities under the Securities Act of 1933. The Dealer Managers and Soliciting Dealers may be considered to be underwriters within the definition of Section 2(11) of the Securities Act of 1933. Clifford W. Michel, a General Partner of Loeb, Rhoades & Co., is a Director and Member of the Executive Committee of Cities.

Atlantic Richfield has agreed to use its best efforts to register the shares of Atlantic Richfield Common Stock offered pursuant to the Exchange Offer under the Securities Act of 1933 and to assist Cities in qualifying such stock under the securities laws of such states as Cities may reasonably request. In this connection Cities has agreed to indemnify Atlantic Richfield, its directors, certain of its officers and controlling persons against certain liabilities which may arise out of the offering made hereby, and Atlantic Richfield has agreed to indemnify Cities against certain other liabilities which may arise out of the offering made hereby.

Total expenses of the Exchange Offer cannot be estimated with accuracy because of the variable factors involved. Assuming that all shares offered are exchanged, the Dealer Managers' fees and expenses and the Soliciting Dealers' fees, payable by Cities, will approximate $2,500,000. It is expected that other expenses in connection with the Exchange Offer will approximate $450,000.

ADDITIONAL INFORMATION RELEVANT TO THE EXCHANGE OFFER

Market Prices of Stocks

The table below sets forth for the periods indicated: (1) the high and low per share sales prices on the New York Stock Exchange for Cities Common Stock; (2) the high and low per share sales prices on the New York Stock Exchange for Atlantic Richfield Common Stock; and (3) the high and low sales

prices (rounded to the higher one-eighth) applicable to .5 share of Atlantic Richfield Common Stock, the amount of such stock receivable upon exchange for each share of Cities Common Stock.

	(1) One share of Cities Common Stock(a)		(2) One share of Atlantic Richfield Common Stock(a)		(3) .5 share of Atlantic Richfield Common Stock(a)	
	High	Low	High	Low	High	Low
Year 1964	$39¾	31⅜	33⅝	26½	16⅞	13¼
Year 1965	45⅜	36⅛	41⅜	30¼	20¾	15⅛
Year 1966	55⅜	40	46¼	34⅛	23⅛	17⅛
1967						
First quarter	49½	44¼	46	41⅝	23	20⅞
Second quarter	53⅜	45	50	43½	25	21¾
Third quarter	55¾	50¼	54⅞	48⅛	27½	24⅛
Fourth quarter	51⅝	45	52⅜	46¼	26¼	23⅛
1968						
First quarter	50⅞	43¼	56⅛	48⅛	28⅛	24⅛
Second quarter	58⅜	46	71	54½	35½	27¼
Third quarter	65½	54	115	67	57½	33½
Fourth quarter	84½	56⅜	130¼	98¼	65⅛	49⅛
1969						
First quarter	80	57	117¾	93⅛	58⅞	46⅝
Second quarter	69	53¾	135¾	104	67⅞	52
Third Quarter (through September 29, 1969)	58⅞	46¼	119¾	96½	59⅞	48¼

(a) Adjusted for 2-for-1 stock splits.

Cities publicly announced the Exchange Offer on August 26, 1969 after the close of trading on that day on the New York Stock Exchange. On August 26, 1969, the per share closing prices on such Exchange were $51¾ for Cities Common Stock and $115½ for Atlantic Richfield Common Stock and the portion of such latter closing price applicable to .5 share of Atlantic Richfield Common Stock was $57¾. On September 29, 1969 the per share closing prices on such Exchange were $48⅞ for Cities Common Stock and $100 for Atlantic Richfield Common Stock and the portion of such latter closing price applicable to .5 share of Atlantic Richfield Common Stock was $50.

Dividends

The table below shows the per share dividends paid on Cities Common Stock and Atlantic Richfield Common Stock for the years 1964 through 1968 and the first three quarters of 1969.

	One share of Cities Common Stock(a)	One share of Atlantic Richfield Common Stock(a)(b)	.5 share of Atlantic Richfield Common Stock(a)
Year 1964	$1.32½	1.20	.60
Year 1965	1.42½	1.25	.62½
Year 1966	1.62½	1.35	.67½
Year 1967	1.80	1.48	.74
Year 1968	2.00	1.68	.84
1969			
First quarter	.50	.45	.22½
Second quarter	.50	.45	.22½
Third quarter	.50	.50	.25

(a) Adjusted for 2-for-1 stock splits.

(b) For the years 1964 and 1965 represents dividends paid on the common stock of The Atlantic Refining Company—into which Richfield Oil Corporation was merged on January 3, 1966.

It is not anticipated that any further dividends on Cities Common Stock or Atlantic Richfield Common Stock will be paid prior to the expiration of the Exchange Offer.

See "Description of Stock of Cities" and "Description of Capital Stock of Atlantic Richfield" below for descriptions of the rights and restrictions regarding payment of dividends on Cities Common Stock and Atlantic Richfield Common Stock.

Earnings Per Share

The following table shows for the years 1964 through 1968 and the six months ended June 30, 1968 and 1969: (1) earnings per share of Cities Common Stock before extraordinary items assuming conversion of all Convertible Preferred and Preference Stocks to equivalent common shares; (2) earnings per share of Cities Common Stock before extraordinary items and on the same assumption as in (1) pro forma assuming that the Exchange Offer had been completed prior to January 1, 1964 and assuming that all 2,370,000 shares of Atlantic Richfield Common Stock offered by Cities had been exchanged for outstanding shares of Cities Common Stock; (3) earnings per share of Atlantic Richfield Common Stock before extraordinary items assuming conversion of all convertible securities to equivalent common shares; and (4) earnings per .5 share of Atlantic Richfield Common Stock, the amount of such stock receivable upon exchange for each share of Cities Common Stock, before extraordinary items and on the same assumption as in (3).

	Cities earnings		Atlantic Richfield earnings	
	(1) Per Common share outstanding (a)	(2) Pro Forma per Common share outstanding assuming exchange (a)	(3) Per Common share outstanding (a)	(4) Per .5 Common share outstanding (a)
Year 1964	$2.54	2.90	2.12	1.06
Year 1965	3.17	3.64	2.71	1.36
Year 1966	3.79	4.31	3.30	1.65
Year 1967	4.02	4.58	3.59	1.80
Year 1968	3.81	4.34	3.83	1.92
Six months ended June 30:				
1968	2.09	2.39	1.87	.94
1969	2.16	2.46	2.03	1.02

(a) Adjusted for 2-for-1 stock splits.

(b) Excludes extraordinary items as follows:

Cities				
Year 1966	.68	.80		
Atlantic Richfield				
Year 1966			.01	.01
Year 1968			(.11)	(.06)

(c) The information as to earnings per share is taken from and is qualified by reference to the financial statements of Cities and Atlantic Richfield included herein.

Book Value Per Share

The table below sets forth, as at June 30, 1969, the book value per share of Common Stock assuming the conversion of all convertible securities to equivalent common shares. The table is based upon the Consolidated Balance Sheets of Atlantic Richfield and Cities, which are set forth elsewhere herein. No representation is made that such values would be realized upon liquidation.

Cities		Atlantic Richfield (a)	
Per Common share	Pro Forma Per Common share (assuming exchange)	Per Common share	Per .5 Common share
$39.84	$46.40	$45.38	$22.69

(a) After deducting the liquidation value of Atlantic Richfield Preferred Stock.

Market Information Concerning the Cities Preferred and Preference Stocks

As indicated above, the closing per share prices for Cities Common Stock and Atlantic Richfield Common Stock on the New York Stock Exchange on August 26, 1969 were $51¾ and $115½, respectively. The closing price for Cities Preferred Stock on the New York Stock Exchange on the same date was $165. The bid and asked prices for Cities Preference Stock on the New York Stock Exchange on the same date were $90 and $100. The Cities Preferred Stock is convertible into shares of Cities Common Stock at the rate of 3.34 shares of Cities Common Stock for each share of Cities Preferred Stock. On the basis of the above closing prices, 3.34 shares of Cities Common Stock had a market value of $172.85, compared with $165 for Cities Preferred Stock. The Cities Preference Stock is convertible into shares of Cities Common Stock at the rate of 1.818 shares of Cities Common Stock for each share of Cities Preference Stock. On the basis of the above closing bid and asked prices, 1.818 shares of Cities Common Stock had a market value of $94.08, compared with $95 as the mean between the bid and asked prices for the Cities Preference Stock.

These price relationships will fluctuate as price changes occur for Cities Common, Preferred and Preference Stocks and Atlantic Richfield Common Stock and should be given careful consideration along with other factors (including tax consequences) by holders of Cities Preferred Stock and Cities Preference Stock before determining whether or not to deliver for conversion or convert Cities Preferred Stock or Cities Preference Stock into shares of Cities Common Stock and to tender such shares for shares of Atlantic Richfield Common Stock under the Exchange Offer.

Holders of Cities Preferred Stock receive annual dividends of $4.40 per share and holders of Cities Preference Stock receive annual dividends of $2.25 per share. The equivalent dividends on Atlantic Richfield Common Stock, assuming conversion of Cities Preferred Stock or Cities Preference Stock and exchange for Atlantic Richfield Common Stock, would be $3.34 and $1.82, respectively.

See "Description of Stock of Cities" and "Description of Capital Stock of Atlantic Richfield" below for further information.

UNITED STATES v. RICHFIELD OIL CORPORATION et al.

As indicated above, the United States filed a civil antitrust suit in the U. S. District Court for the Southern District of California in October, 1962 against Richfield, Cities, one of its subsidiaries, Sinclair, one of its subsidiaries, and five of Richfield's directors. The complaint asked the Court to declare unlawful the acquisition of stock in Richfield by Cities and Sinclair and their subsidiaries and that those companies be required to divest themselves of Richfield stock and that persons who were directors of Cities or Sinclair be ordered to resign as directors of Richfield.

On January 3, 1966, Richfield merged into Atlantic Richfield and on January 11, 1966 a Final Judgment was entered dismissing the suit without prejudice as moot and incorporating the Stipulation referred to under "Purpose of the Exchange Offer" above. The Stipulation provides that within seven years after the effective date of the merger Cities and Sinclair each will divest itself of all Atlantic Richfield stock acquired in the merger, together with any other Atlantic Richfield stock it may acquire. Each company is required to notify the Antitrust Division of the Department of Justice prior to its divestiture of more than 5% of its original holding of Atlantic Richfield stock to any transferee engaged in any aspect of the petroleum industry and, if the Antitrust Division objects, any such proposed divestiture may not be made until approved by the Court.

The Stipulation also provides that prior to full divestiture of the Atlantic Richfield stock no representative of either Cities or Sinclair will qualify or serve as a director or officer of Atlantic Richfield and that, except in cases where the Antitrust Division of the Department of Justice otherwise consents, Cities and Sinclair will vote such stock at any election of directors of Atlantic Richfield and on every proposal submitted to Atlantic Richfield stockholders in accordance with the recommendation of the management of Atlantic Richfield. The voting restriction contained in the preceding sentence does not

apply to any proposed amendments to Atlantic Richfield's articles of incorporation which would change any right, preference or par value, or enlarge or restrict any voting or preemptive right of any class of stock, or authorize the creation of a class of stock, other than common stock, pari passu with or superior to any class of stock held by Cities or Sinclair or authorize the Board of Directors of Atlantic Richfield to fix relative rights and preferences between series of any class of stock held by either company, or revoke such authority. Cities stockholders who acquire shares of Atlantic Richfield Common Stock under the Exchange Offer will not be subject to the restrictions in the Stipulation.

Sinclair initially held 2,884,153 shares of Atlantic Richfield Preference Stock and, in April 1967, divested itself of such holdings by an exchange offering to its common stockholders. Cities initially held 2,965,231 shares of Atlantic Richfield Preference Stock which, in November, 1968, was converted into Atlantic Richfield Common Stock. Cities and Sinclair acquired Atlantic Richfield Preference Stock in the merger of Richfield into Atlantic Richfield in January, 1966 and upon conversion of Richfield Convertible Debentures (assumed by Atlantic Richfield in the merger) in February, 1966. In August, 1969, Cities issued and sold $100,000,000 of its 6⅝% Debentures Due 1999 with Warrants to purchase 500,000 shares of Atlantic Richfield Common Stock. After completion of the Exchange Offer, Cities expects to dispose of the remaining 2,000,892 shares of Atlantic Richfield Common Stock, any shares not disposed of pursuant to the Exchange Offer and any shares not disposed of by the exercise of the previously mentioned Warrants by any means which it considers to be in the interest of Cities and its stockholders in accordance with the Stipulation.

ATLANTIC RICHFIELD COMPANY

Atlantic Richfield Company was incorporated in 1870 under the laws of Pennsylvania. Its principal executive offices are at 717 Fifth Avenue, New York, New York. Atlantic Richfield's present name was adopted subsequent to the merger of Richfield Oil Corporation into The Atlantic Refining Company on January 3, 1966. On March 4, 1969, Sinclair Oil Corporation was merged into Atlantic Richfield, which is the surviving corporation.

Atlantic Richfield with its subsidiaries is engaged in the exploration for, and development, production, purchase, transportation and sale of, crude petroleum and natural gas, and in the manufacturing, transportation and marketing of petroleum products derived from crude oil, including petrochemicals. Operations are conducted principally in the United States. Atlantic Richfield also obtains substantial quantities of crude petroleum from its interests in properties in a number of foreign countries which it either sells outside the United States or imports for use in its refineries. It also sells certain of its refined products in Europe and elsewhere in the world markets. Atlantic Richfield with its subsidiaries comprises one of the large integrated enterprises in the petroleum industry.

Unless indicated otherwise, the terms "Atlantic Richfield" or the "Company" as used herein refer to Atlantic Richfield Company or Atlantic Richfield Company and one or more of its consolidated subsidiaries, after reflecting the merger with Sinclair Oil Corporation and the related sale of assets to BP Oil Corporation, as described herein. The term "Sinclair" refers to Sinclair Oil Corporation or Sinclair Oil Corporation and one or more of its consolidated subsidiaries prior to the merger with Atlantic Richfield.

RECENT DEVELOPMENTS

The Merger with Sinclair Oil Corporation

On December 31, 1968 the shareholders of the Company and the stockholders of Sinclair Oil Corporation, voting at special meetings, approved a plan providing for the merger of Sinclair into the Company. In connection with the merger, the Company had announced an agreement to sell, among other assets, the marketing properties of Sinclair in the Northeastern states to BP Oil Corporation (herein called "BP"), which is indirectly a wholly-owned subsidiary of The British Petroleum Company, Limited. The Department of Justice brought suit under Section 7 of the Clayton Act against the Company and Sinclair on January 15, 1969 seeking to enjoin the merger. On February 17, 1969 the United States District Court for the Southern District of New York granted the Government's motion for a preliminary injunction to prevent consummation of the merger during the pendency of the suit. The Court found that the Government had demonstrated that it had a substantial probability of proving at trial that the merger would have anti-competitive effects in the Southeastern states.

Subsequently, the Company and BP agreed that, simultaneously with the proposed merger, the Company would sell to that corporation the Sinclair marketing properties and related assets in the Southeastern states, as well as the marketing properties of Sinclair in the Northeastern states. The Company and Sinclair thereupon entered into a stipulation and agreement with the Government on March 3, 1969 which provided, among other things, that the Government would not oppose the vacation of the preliminary injunction, and that following the merger and during the pendency of the litigation, the Company would act in good faith to preserve its ability to comply with a possible ultimate divestiture order. The Company has undertaken during the pending litigation to retain and promote the trademark "Sinclair" in the Sinclair gasoline marketing areas where properties were not sold to BP. The stipulation and agreement was approved by the Court and the preliminary injunction vacated on March 4, 1969. On that date the merger and the sale to BP were consummated. In the opinion of Hughes Hubbard & Reed, there is no probability that the Department of Justice will obtain material relief against the Company. See "Litigation" for other information concerning suits pertaining to the merger, including the suit by Humble Oil & Refining Company involving former Sinclair North Slope acreage (such acreage is described under "Business and Properties of Atlantic Richfield" herein).

Pursuant to the plan of merger, each outstanding share of Sinclair Common Stock was converted into one share of $2.80 Cumulative Convertible Preference Stock and 0.6 of a share of Common Stock of Atlantic Richfield.

Related Sale of Assets

On the date of the merger, Atlantic Richfield sold certain assets to BP. The purchase price of the assets sold to BP, arrived at through arms-length negotiations, was $400,000,000, with interest at 7%, subject to adjustment upon verification of assets. The first installment of both principal and interest would have been due six months after the first shipment of commercial quantities of crude oil from the North Slope area of Alaska for BP's account, but not later than December 31, 1972. Interest accrued prior to that date may be converted annually into notes with terms similar to notes representing the original purchase price. Subsequently, British Petroleum (B. P. Overzee) N. V. ("Overzee") a Netherlands Corporation, which is also indirectly a wholly-owned subsidiary of The British Petroleum Company Limited and the Standard Oil Company ("Sohio"), an Ohio corporation, entered into an Agreement pursuant to which BP will be acquired by Sohio in exchange for a special class of its stock. A definitive agreement is being negotiated so that upon such acquisition, Overzee will become obligated to pay the purchase price of the assets sold to BP on substantially similar terms. Overzee's obligation will be guaranteed by The British Petroleum Company Limited and will be secured by a pledge of the Sohio Special Stock, or of collateral having a value of not less than 125% of said obligation. The British Petroleum Company Limited will also pay to Atlantic Richfield Company a fee equal to 1/7th of the interest payable by Overzee with respect to the period after the acquisition of BP by Sohio, and will cause $120,000,000 of Overzee's obligation to be prepaid on January 2, 1970.

The principal assets sold were:

1. Former Sinclair marketing properties and related activities located in the States of Maine, Massachusetts, Vermont, New Hampshire, Connecticut, Rhode Island, New York, Pennsylvania, New Jersey, Delaware, Maryland, Virginia, North Carolina, South Carolina, Georgia and Florida and the District of Columbia.

2. Two refineries, one in Marcus Hook, Pennsylvania and the other located adjacent to Port Arthur, Texas.

3. Certain pipelines and terminal facilities.

The Company also agreed on the following matters in order to make the assets sold a viable business enterprise: crude supply and transportation arrangements necessary for the operation of the two refineries; product distribution arrangements; transfer of personnel necessary to operate the facilities and conduct the operations; and supply of motor oils, lubricants and other automotive products until BP obtains another source for these products. In addition, BP purchased inventories and accounts receivable associated with the marketing assets and refineries for a negotiated price generally related to cost or market. Payment for these assets will be received by Atlantic Richfield by October 1, 1969.

Purchase of Sinclair Stock

Prior to the special meetings of shareholders of Atlantic Richfield and Sinclair with respect to the merger, a tender offer was made for the Sinclair Common Stock by Gulf & Western Industries, Inc. ("G & W"). Thereafter Atlantic Richfield offered to purchase from Sinclair stockholders Sinclair Common Stock at $145 per share. As a result, 2,527,877 shares of such stock were acquired by Atlantic Richfield on December 23, 1968. To provide funds for the purchase, Atlantic Richfield entered into the Revolving Credit Agreement with several banks providing for borrowing up to $432,500,000. As of September 11, 1969, notes outstanding under the Agreement amounted to $216,250,000.

Atlantic Richfield entered into an agreement with G & W as of December 31, 1968 under which G & W granted to Atlantic Richfield a transferable option to purchase, between August 1 and September 3, 1969, up to 618,360 shares of Common Stock of Sinclair (or the Atlantic Richfield securities into which such shares would be converted upon consummation of the merger) at $130 per share. As a result of the merger, the option gave Atlantic Richfield the right to purchase 618,360 shares of its $2.80 Cumulative Convertible Preference Stock and 371,016 shares of its Common Stock. On August 27, 1969, Atlantic Richfield agreed to cancel the option in return for $2,011,662 from G & W. G & W thereafter sold the Atlantic Richfield shares which had been subject to the option.

As consideration for the option, Atlantic Richfield issued to G & W a warrant, exercisable between December 31, 1970 and December 31, 1976, to purchase an equal number of shares of Common Stock of Atlantic Richfield at $125 per share and, upon request by G & W at any time after November 1, 1970, Atlantic Richfield will file a registration statement under the Securities Act of 1933 covering such warrant and/or the shares issuable upon exercise thereof. The warrant is not transferable prior to December 31, 1970. As part of the agreement, G & W terminated its tender offer for stock of Sinclair.

Sale of Common Stock

In July 1969, Atlantic Richfield sold 1,500,000 shares of Common Stock to the public. The net proceeds, approximately $167,800,000, were used to reduce notes outstanding under the Revolving Credit Agreement mentioned above.

CAPITALIZATION

The following table sets forth the capitalization of Atlantic Richfield Company and its consolidated subsidiaries at July 31, 1969. The 2,370,000 shares of Common Stock covered by this Prospectus and which may be exchanged for Cities Service Company Common Stock are outstanding shares and, consequently, their exchange will not affect the capitalization of Atlantic Richfield Company.

SHORT TERM DEBT: (in thousand dollars)	
Notes payable, at various interest rates	$220,154
Long term debt due within one year	18,997
Total Short Term Debt	$239,151
LONG TERM DEBT: (in thousand dollars) (Note 1)	
Twenty-five year 2.85% debentures, due October 1, 1974	$ 12,500
Twenty-five year 3¼% debentures, due January 15, 1979	38,500
Thirty year 3.85% debentures, due June 1, 1983	29,000
Thirty year 5⅝% debentures, due May 15, 1997	100,000
Twenty-five year 2⅞% debentures, due December 1, 1972	7,950
Twenty-five year 3% debentures, due November 1, 1974	50,000
Twenty-five year 4.60% debentures, due December 15, 1988	144,000
4½% notes payable, due in semi-annual installments of $4,687,500 to February 15, 1975	46,875
Notes under Revolving Credit Agreement, at prevailing interest rates (Note 2)	216,850
5¾% guaranteed notes, due May 1, 1972	15,000
Twenty-five year 3⅜% debentures, due August 1, 1975	18,200
5% notes payable, due in annual installments of $610,000 to September, 1992	13,410
4⅜% convertible subordinated debentures, due April 15, 1983	606
4⅜% convertible subordinated debentures, due December 1, 1986	46,023
Other long term debt	11,865
Total Long Term Debt	$750,779
CAPITAL STOCK: (Notes 3 and 4)	
Cumulative preferred stock, par $100:	
Authorized and Issued—3.75% Series B	352,000 shs.
$3.00 cumulative convertible preference stock, par $1:	
Authorized 4,230,849 shs.—Issued	2,902,648 shs.
$2.80 cumulative convertible preference stock, par $1:	
Authorized 15,250,000 shs.—Issued	11,511,171 shs.
Common stock, par $5 (Note 4):	
Authorized 75,000,000 shs.—Issued	43,530,364 shs.*

* Excludes 23,598 shares held in treasury.

NOTE 1—Reference is made to Notes 8 and 10 of "Notes to Consolidated Financial Statements" appearing elsewhere herein for information as to annual sinking fund and installment requirements and as to commitments under long term leases and contingent liabilities as at December 31, 1968, and June 30, 1969. There has been no material change in these items since December 31, 1968 except as described in the "Recent Developments" section preceding.

NOTE 2—The Agreement provides for the borrowing by the Company of up to $432,500,000 in aggregate principal amount at any one time outstanding, such borrowings to be evidenced by Revolving Credit Notes until December 31, 1970, and thereafter to be evidenced until maturity by Term Notes due in eight equal semi-annual installments beginning June 30, 1972.

NOTE 3—Reference is made to Note 14 of "Notes to Consolidated Financial Statements" appearing elsewhere herein for information as to the preferential rights of the preference stock and the aggregate preferential amounts as at December 31, 1968.

NOTE 4—As of July 31, 1969 a total of 13,684,702 additional shares of Common Stock were issuable upon the exercise of all rights (including convertible securities) outstanding entitling the holders thereof to acquire Common Stock.

STATEMENTS OF CONSOLIDATED INCOME

The following statements of consolidated income of Cities Service Company and subsidiaries have been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants, to the extent stated in their report appearing elsewhere herein. With respect to the unaudited periods, the management of Cities Service believes that all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results of operations for such periods have been included. These statements should be read in conjunction with the other financial statements and the related notes included in this Prospectus.

(Amounts in the following statements and the footnotes are stated in thousands of dollars)

	Year ended December 31					Six months ended June 30	
	1964	1965	1966	1967	1968	1968	1969
						(Unaudited)	
Gross income							
Sales and operating income (note a)	$1,170,420	1,205,839	1,296,023	1,374,859	1,439,728	729,922	787,121
Dividends, interest and miscellaneous income	23,571	23,735	31,543	27,732	20,882	13,065	18,164
	1,193,991	1,229,574	1,327,566	1,402,591	1,460,610	742,987	805,285
Costs and expenses							
Costs and operating expenses	806,115	805,396	860,655	923,968	991,596	494,752	544,487
Selling, general and administrative expenses	125,424	133,933	131,570	136,066	136,538	68,800	70,886
Taxes, other than Federal and foreign income taxes	33,208	34,207	39,363	41,398	45,038	23,053	24,195
Depreciation and depletion	85,177	87,992	88,299	88,603	100,261	47,500	49,482
Dry holes and lease cancellations	16,909	18,919	20,561	28,532	20,444	10,306	12,162
Interest expense	18,002	18,012	17,014	16,409	20,409	9,993	10,195
Federal income taxes (note b)	19,819	31,973	51,760	32,348	12,683	16,128	15,933
Foreign income taxes	967	977	902	5,104	4,594	2,289	2,298
Deferred Federal income taxes (note b)	6,830	(3,119)	(3,497)	1,398	6,524	3,154	6,604
Income applicable to minority interests	567	706	809	929	1,187	437	293
	1,113,018	1,128,996	1,207,436	1,274,755	1,339,274	676,412	736,535
Income before extraordinary credit	80,973	100,578	120,130	127,836	121,336	66,575	68,750
Extraordinary credit—gain on sales of assets, less income taxes of $12,047	—	—	21,664	—	—	—	—
Net income	$ 80,973	100,578	141,794	127,836	121,336	66,575	68,750
Earnings per share of Common Stock—Preferred and Preference Stocks converted to equivalent common shares							
Income before extraordinary credit	$2.54	3.17	3.79	4.02	3.81	2.09	2.16
Extraordinary credit	—	—	.68	—	—	—	—
Net income	2.54	3.17	4.47	4.02	3.81	2.09	2.16
Cash dividends per share of Common Stock	1.32½	1.42½	1.62½	1.80	2.00	1.00	1.00

(a) Includes sales of purchased crude oil: 1964—$177,700; 1965—$169,300; 1966—$198,900; 1967—$261,200; 1968—$293,400 and for the six months ended June 30, 1968 and 1969—$139,400 and $154,600, respectively. Excise taxes collected for government agencies on the sale of products are not included as revenue or expense.

(b) See note 6 of Notes to Financial Statements.

Pro Forma Effect of the Exchange and Related Transactions on Cities Service's Consolidated Financial Statements

The pro forma effect on the assets and stockholders' equity shown on the consolidated balance sheet of Cities Service at June 30, 1969, included elsewhere in this Prospectus, of the exchange of 2,370,000 shares of Atlantic Richfield Common Stock for 4,740,000 shares of Cities Common Stock and the subsequent cancellation of such shares of Cities Common Stock, would be approximately as follows :

> "Investments and sundry assets" would be reduced $8,126,000, "Cash" would be reduced $2,900,000 (estimated underwriting fees and expenses), "Common Stock" would be reduced by $23,700,000 (the par value of the shares cancelled), and "Capital surplus" would be increased $12,674,000 (the excess of par value of shares cancelled over the cost of the investment in Atlantic Richfield Common Stock, less the underwriters fees and expenses). No charge will be made to retained earnings upon cancellation. Accordingly, "Total stockholders' equity" would be reduced by $11,026,000 from $1,268,650,000 to $1,257,624,000, but, in view of the resulting decrease in the number of shares of Cities Common Stock outstanding, stockholders' equity per outstanding share (on the basis of full conversion of Preferred and Preference Stocks) would be increased from $39.84 to $46.40.

In addition, if the exchange had been completed prior to 1968, "Net income" as reflected in the statements of consolidated income of Cities Service Company and subsidiaries, included elsewhere in this Prospectus, would have been reduced due to the elimination of dividends on the Atlantic Richfield Common Stock exchanged as follows: for the year 1968 from $121,336,000 to $117,466,000; for the six months ended June 30, 1969 from $68,750,000 to $66,786,000. However, in view of the resulting decrease in the number of shares of Cities Common Stock outstanding, net income per share would have been increased as follows: for the year 1968 from $3.81 to $4.34; and for the six months ended June 30, 1969 from $2.16 to $2.46.

Cities Service's stockholders' equity and net income shown above do not reflect the extraordinary credit to income in August 1969 of $6,164,000 arising from the issuance of $100,000,000 of 6⅝% Debentures with Warrants attached for the purchase of 500,000 shares of Atlantic Richfield Common Stock. See note (d) to the capitalization schedule.

ATLANTIC RICHFIELD COMPANY AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Note A)

(Thousands of Dollars)

The following consolidated statement of income of Atlantic Richfield Company and its consolidated subsidiaries insofar as it relates to the five years ended December 31, 1968 has been examined by Lybrand, Ross Bros. & Montgomery, independent certified public accountants, whose report with respect thereto (based in part on the report of other independent certified public accountants) appears elsewhere herein. In the opinion of Atlantic Richfield all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the net income for the six months ended June 30, 1968 and 1969 have been included. The results for the six months ended June 30, 1969 are not necessarily indicative of the results that will be realized for the year. This statement should be read in conjunction with the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, and the notes to the consolidated financial statements of Atlantic Richfield included elsewhere in this registration statement.

	Year Ended December 31					Six Months Ended June 30 (Unaudited)	
	1964	1965	1966	1967	1968	1968	1969
Revenues:							
Sales and other operating revenues, including excise taxes (Note B)	$2,034,083	$2,185,940	$2,386,033	$2,635,771	$2,799,186	$1,377,628	$1,573,959
Dividends and/or earnings of unconsolidated subsidiaries and interest	15,299	14,194	15,884	16,553	17,887	6,953	14,980
Other revenues (Note C)	13,787	5,364	10,261	12,882	11,530	5,987	11,855
	2,063,169	2,205,498	2,412,178	2,665,206	2,828,603	1,390,568	1,600,794
Expenses:							
Costs and operating expenses (Note D)	1,126,210	1,198,044	1,312,833	1,471,508	1,525,923	746,360	895,718
Selling, delivery and administrative expenses	190,908	202,726	220,602	234,719	275,575	143,953	147,780
Taxes other than income taxes (Note B)	448,745	464,858	486,359	524,421	548,168	263,111	274,260
Depreciation, depletion, amortization and retirements (Note E)	147,287	154,531	169,771	178,495	197,824	98,920	109,569
Interest expense including amortization of discount on debentures	23,146	21,248	19,576	28,133	34,585	16,668	33,443
	1,936,296	2,041,407	2,209,141	2,437,276	2,582,075	1,269,012	1,460,770
Income from operations before provision for income taxes	126,873	164,091	203,037	227,930	246,528	121,556	140,024
Provision for income taxes (Note F)	24,017	27,629	31,514	37,113	40,712	20,943	29,066
Income before extraordinary items	102,856	136,462	171,523	190,817	205,816	100,613	110,958
Extraordinary items (Note G)	—	—	319	—	(6,256)	—	—
Net income (Note H)	$ 102,856	$ 136,462	$ 171,842	$ 190,817	$ 199,560	$ 100,613	$ 110,958
Earnings per common and common equivalent share (Note I):							
Net income before extraordinary items	$2.12	$2.71	$3.30	$3.59	$3.83	$1.87	$2.03
Extraordinary items	—	—	.01	—	(.11)	—	—
Net income	$2.12	$2.71	$3.31	$3.59	$3.72	$1.87	$2.03
Cash dividends per common share of Atlantic Richfield	$1.20	$1.25	$1.35	$1.48	$1.68	$ .78	$ .90

NOTES TO CONSOLIDATED STATEMENT OF INCOME

NOTE A. See Note 2 to the consolidated financial statements of Atlantic Richfield regarding "poolings of interests" with Richfield Oil Corporation and Sinclair Oil Corporation.

A reconciliation of previously reported Revenues and Net Income of the merged companies is as follows (expressed in thousands of dollars):

REVENUES

	1964	1965	1966	1967	1968	Six Months Ended June 30, 1968
As previously reported:						
Atlantic Richfield	$1,185,974	$1,258,547	$1,363,233	$1,578,668	$1,740,537	$ 850,696
Sinclair, adjusted for excise taxes	1,459,354	1,544,477	1,652,831	1,756,357	1,728,931	861,291
Total	2,645,328	2,803,024	3,016,064	3,335,025	3,469,468	1,711,987
Less:						
Portion thereof attributable to assets sold (see Note H)	532,634	550,209	544,591	600,224	581,671	290,823
Portion thereof relating to Atlantic Richfield securities held by Sinclair	2,773	2,799	5,379	1,307	—	—
Reclassification of crude oil exchanges to conform with Atlantic Richfield classification	46,752	44,518	53,916	68,288	59,194	30,596
Total as restated	$2,063,169	$2,205,498	$2,412,178	$2,665,206	$2,828,603	$1,390,568

NET INCOME

	1964	1965	1966	1967	1968	Six Months Ended June 30, 1968
As previously reported:						
Atlantic Richfield	$ 68,531	$ 90,111	$ 113,484	$ 130,005	$ 148,861	$ 70,235
Sinclair	58,672	75,969	95,137	95,372	76,583	45,888
Total	127,203	166,080	208,621	225,377	225,444	116,123
Less:						
Portion thereof attributable to assets sold (see Note H)	21,992	27,248	31,400	33,253	25,884	15,510
Portion thereof relating to Atlantic Richfield securities held by Sinclair	2,355	2,370	5,379	1,307	—	—
Total as restated	$ 102,856	$ 136,462	$ 171,842	$ 190,817	$ 199,560	$ 100,613

The consolidated statements of income are different from those previously published since the acquisition of Sinclair has now been consummated. Although the acquisition of Sinclair was accounted for as a part-purchase part-pooling, the consolidated statement of income of the merged Company has been presented excluding only the operations sold to BP in order to present the historical operations of the continuing business.

Revenues attributable to the assets sold have been specifically determined from the records of the Company. The determination of costs and expenses attributable to such revenues necessarily involves allocations based on estimates of management determined after considering various operational factors.

NOTE B. State and federal excise taxes collected from customers (which are included in sales and other operating revenues and taxes, other than income taxes) were as follows: $383,183,000, $394,453,000, $405,660,000, $437,484,000, $454,723,000, $216,417,000.

NOTE C. See Note 6 to the consolidated financial statements regarding other revenue.

NOTE D. See Note 5 to the consolidated financial statements regarding inventories.

NOTE E. See Note 7 to the consolidated financial statements regarding methods of depreciation, depletion and amortization.

NOTE F. The relationship of provisions for federal taxes on income to income before taxes on income is influenced to an important degree by the excess of percentage depletion over cost depletion; by items such as intangible development costs and the cost of non-producing leases, both of which are capitalized and amortized on the books but are written off for tax purposes as incurred and as surrendered, respectively; and by certain other items, some part of which is capitalized for tax purposes but written off for book purposes as incurred.

The provision for income taxes for the years 1964 through 1968 and six months 1968 and 1969, is as follows:

	(Thousands of dollars)					Six Months Ended June 30	
	1964	1965	1966	1967	1968	1968	1969
Federal	$(2,579)	$ 2,629	$ 7,637	$ 6,188	$ 2,999	$ 1,400	$ 8,400
Foreign	25,456	23,939	22,901	28,683	36,030	18,828	19,174
State	1,140	1,061	976	2,242	1,683	715	1,492
Total	$24,017	$27,629	$31,514	$37,113	$40,712	$20,943	$29,066

NOTE G. The extraordinary items represent in 1966 the gain on the liquidation of the investment in Great Lakes Pipe Line Company, net of a provision for a program to divest certain uneconomic service stations and a provision for disputed royalty claims relating primarily to years prior to 1964, and in 1968 a provision for domestic plant disposals and contingencies affecting foreign operations. These items are after applicable federal income taxes.

NOTE H. See Note 3 to the consolidated financial statements regarding the forced disposition of certain assets of the merged company as of March 4, 1969.

NOTE I. On July 15, 1968 a two-for-one split of common stock of Atlantic Richfield became effective.

All data relative to common stock and per share amounts in the foregoing consolidated statement of income and notes thereto have been adjusted to give retroactive effect to this transaction.

In accordance with current thinking in the accounting profession, the $3 cumulative convertible preference shares (including conversion of the remaining 4⅜% convertible subordinated debentures due 1983), the $2.80 cumulative convertible preference shares and the 4⅜% convertible subordinated debentures due 1986 are considered the equivalent of the voting common shares. Accordingly, all earnings per share shown in the consolidated statement of income have been calculated as if the number of $3 cumulative convertible preference shares (including 4⅜% convertible subordinated debentures due 1983), the $2.80 cumulative convertible preference shares and the 4⅜% convertible subordinated debentures due 1986 outstanding during these years had been converted into common stock and the dividends and interest attributable thereto were available to common stock (see table below). The earnings per share for 1964 also reflects the "pooling of interests" referred to in Note A above and the conversion of 4½% convertible subordinated debentures into common stock during 1965. The number of shares used in the calculation of earnings per share ranges from 48,177,300 at January 1, 1964 to 54,814,703 at June 30, 1969.

	(Thousands of dollars)					Six Months Ended June 30	
	1964	1965	1966	1967	1968	1968	1969
Income before extraordinary items	$102,856	$136,462	$171,523	$190,817	$205,816	$100,613	$110,958
Less dividends on 3.75% Preferred Stock	1,320	1,320	1,320	1,320	1,320	660	660
	101,536	135,142	170,203	189,497	204,496	99,953	110,298
To remove interest expense and amortization of debt expense, net of related income taxes, applicable to the debentures	7,937	6,194	2,731	2,492	4,515	1,749	1,082
Income before extraordinary items available to common stock and common stock equivalent	$109,473	$141,336	$172,934	$191,989	$209,011	$101,702	$111,380

BUSINESS AND PROPERTIES OF ATLANTIC RICHFIELD

Production. Atlantic Richfield's production of crude oil, natural gas and natural gas liquids is being obtained principally in the United States, including the Gulf of Mexico and Alaska, and in Canada, Venezuela and Iran. In North America at June 30, 1969, Atlantic Richfield was producing crude oil or gas or both from a total of 14,956 net wells and owned or had interests in 98 gasoline plants, of which it operated 33.

Net production of crude oil, natural gas liquids and natural gas by Atlantic Richfield for the years 1964 through 1968 and the first six months of 1969 is set forth below.(1)

	1964	1965	1966	1967	1968	First Six Months of 1969
Crude Oil and Natural Gas Liquids (barrels per day [2])						
North America	336,603	353,851	373,423	404,442	437,382	452,592
Outside North America	155,553	176,576	196,444	222,179	238,320(3)	214,535(4)
Natural Gas (million cubic feet per day)						
North America (5)	1,426	1,515	1,615	1,704	1,875	2,039
Outside North America	10	10	11	11	13	14

(1) Net production represents the interest of the Company after deducting royalty and operating interests of others and amounts applied in reduction of production payments held by others. Crude oil and natural gas liquids (barrels per day) applied in reduction of production payments held by others were as follows: 1964—28,556; 1965—45,259; 1966—47,099; 1967—44,447; and 1968—38,573. Daily natural gas production applied in reduction of such production payments were approximately as follows: 1964—304 million cubic feet; 1965—342 million cubic feet; 1966—328 million cubic feet; 1967—267 million cubic feet; and 1968—211 million cubic feet. For the first six months of 1969, 40,725 barrels of crude oil and 261 million cubic feet per day of gas were applied in reduction of production payments held by others.

(2) One barrel equals 42 U. S. gallons.

(3) Includes the following net barrels daily of Algerian production: 1964—5,157; 1965—4,960; 1966—16,339; 1967—21,730; 1968—22,981.

(4) Excludes Algerian production.

(5) Gas production in North America is based on sales and does not include gas used on the lease, vented or flared.

The following table shows Atlantic Richfield's net productive wells completed in the years 1964 through 1968 and the first six months of 1969.

	1964	1965	1966	1967	1968	First Six Months of 1969
North America						
Oil	309	346	332	332	317	136
Gas	80	90	79	68	53	31
Outside North America						
Oil	11	17	23	28	16	4
Gas	—	—	1	—	3	—

The significant operations of the Company outside North America are revenue-generating producing operations, mainly in Venezuela and Iran, and expense-generating exploratory activities in other countries, principally Australia and Indonesia and in the North Sea. Based on prevailing market prices and before allocating general corporate expenses and U. S. income taxes, the contribution to profit of the operations of the Company outside North America represents less than 3% of the contribution to profit on a comparable basis of the total operations of the consolidated Company during the 6 months period ended June 30, 1969.

United States and Canada. In North America at June 30, 1969, Atlantic Richfield had oil and gas rights under approximately 2,000,000 net acres of producing leases and approximately 49,900,000 net acres which are undeveloped. Most of the Company's crude oil production in the United States and Canada is subject to restriction under conservation laws which provide for regulation of production.

Atlantic Richfield has varying interests in approximately 1,740,000 gross acres, amounting to approximately 875,000 net acres, in the North Slope area of Alaska. This net acreage excludes that which Home Oil Company of Canada can earn under the agreement mentioned below. These interests will be reduced to about 848,000 net acres if another company completes a well it intends to drill on this acreage. A map showing the location of the Atlantic Richfield interests in the North Slope area is set forth following this discussion of the Company's business and properties.

An important oil discovery was made in 1968 in the North Slope area near Prudhoe Bay on a portion of a 90,000-acre block of leases in which Atlantic Richfield and Humble Oil & Refining Company

("Humble") each owns a 50 percent working interest. On September 30, 1969 Atlantic Richfield announced that five of nine Company operated wells had been completed on the North Slope since the Prudhoe Bay discovery, of which five are apparently productive and four resulted in dry holes to the depth drilled. Eight of the wells were drilled with Humble and the ninth with BP.

The two initial wells, seven miles apart on the 90,000 acre block referred to above, have flowed oil from specific intervals at test rates of 2,300 barrels per day and 2,415 barrels per day, respectively. The Company has since completed two additional productive wells on the same formation on the block. These wells have not yet been sufficiently tested because of the tight security prior to the recent lease sale described below. They are located in the southeastern portion of the 90,000 acre block, approximately four miles apart. A third well, which was drilled in the extreme northwestern portion of the block was a dry hole. The Company believes the information derived from the wells referred to above indicates the probable existence of extensive oil and gas reserves on this block of leases.

Three new probable discovery wells were drilled by Atlantic Richfield, two of which were with Humble and one with BP, considered to be geologically separate from the discovery referred to above. One of these wells is on the eastern edge of the 90,000 acre block and the other two are approximately 11 miles and 22 miles west, respectively, of the block. Analyses of the new wells are based on well log data and on very limited tests.

Three dry wells, each drilled with Humble, were completed. One of these wells is on the northwest edge of the 90,000 acre block and the other two are approximately 8 miles and 21 miles southwest, respectively, of the block.

At the time of the merger, Sinclair had varying interests in approximately 564,000 gross acres on Alaska's North Slope, amounting to some 393,000 net acres. Of such interests Atlantic Richfield now holds approximately 422,000 gross acres or 255,000 net acres which will be reduced to about 226,000 net acres if another company completes a well it intends to drill on this acreage. Such acreage will be further reduced by approximately 15,000 net acres if Home Oil Company of Canada fulfills the agreement described below. All but about 10,000 net acres of the former Sinclair acreage is involved in the suit brought by Humble described under the caption "Litigation" herein. Sinclair had explored a portion of its holdings in the area, including participation in several unsuccessful exploratory wells. More recently, a joint exploratory well was drilled with BP on these North Slope holdings at a location approximately 22 miles west of the Prudhoe discovery block described as one of the probable new discovery wells above. Additional drilling will be necessary to fully evaluate this acreage.

Atlantic Pipe Line Company (a subsidiary of the Company) and seven other corporations are planning construction of a 48-inch trans-Alaska pipeline system, in which Atlantic Pipe Line Company will have a 27½% interest, from the North Slope area to an ice free port in Southern Alaska. The proposed system is to be a common carrier and is planned to have an initial pipe line design capacity of approximately 650,000 barrels per day. Completion is tentatively scheduled for 1972. The estimated cost of the system is approximately $900 million.

Reference is made to "Transportation" herein for a discussion of the construction of three new tankers to be used in transporting crude oil from Alaska.

Atlantic Richfield has entered into agreement with Home Oil Company of Canada, whereby Home can earn 50% of Atlantic Richfield's interest in oil leases on approximately 480,000 gross acres on Alaska's North Slope. The acreage is located 25 to 75 miles south and southwest of the 90,000 acre block referred to above. Under the terms of the agreement, Home has paid Atlantic Richfield $3 million for certain rights to the acreage and has agreed to perform exploration and evaluation work at an additional cost of up to $20 million. Of the total acreage involved in the agreement with Home, approximately 343,000 acres were wholly owned by Atlantic Richfield and approximately 137,000 acres were jointly owned by Atlantic Richfield and another company. A well is now being drilled in the area.

Atlantic Richfield, as operator, has four contractor owned rigs under contract for drilling on jointly owned properties on the North Slope, and is also a 50% owner in a North Slope well being drilled by another company.

Atlantic Richfield was the high bidder for oil and gas leases on 19 tracts totalling 47,122 acres in the State of Alaska, North Slope lease sale held on September 10, 1969. The 19 bids were in varying amounts for a total of $32,338,244. This was an average of $686.27 per acre. Humble has the right to acquire for one half the cost a one-half interest in each of the leases awarded to Atlantic Richfield

and Atlantic Richfield has a similar right to acquire a one-half interest in three leases acquired by Humble. This acreage is shown on the map following this section, but is not included in that discussed above.

Atlantic Richfield has entered into an agreement with Aquitaine Company of Canada, Ltd. regarding operations in the Hudson Bay area of Canada. Atlantic Richfield has a 50% working interest in approximately 55.5 million gross acres in this area. Drilling operations in Hudson Bay commenced on August 7, 1969.

Atlantic Richfield has obtained sources of raw material for the possible production of synthetic crude oil, including interests in more than 44,000 net acres of oil shale properties and certain rights in oil shale processes and related technology. About 8,800 acres of these rights are subject to a lawsuit for rescission. Atlantic Richfield holds coal rights under approximately 200,000 net acres in the United States. The Company also holds more than 590,000 net acres in the Athabasca Tar Sands area in Canada. Atlantic Richfield is a member of a four company group which has applied for a permit to build a processing plant in that area to go on stream in 1976 to produce 80,000 barrels a day of synthetic oil and specialty products. Following a hearing on the application, the Alberta Oil and Gas Conservation Board has recommended to the Provincial Government the issuance of the requested permit.

Atlantic Richfield is actively exploring for uranium and owns about 530,000 net acres of uranium rights in the United States and has rights to explore for uranium and other hard minerals on approximately 860,000 net acres in Canada. Exploration to date on its United States holdings warrants, in the opinion of Atlantic Richfield, further exploration to determine whether a commercially mineable deposit exists. Exploration to date in Canada has produced no encouraging results.

Venezuela. Venezuelan Atlantic Refining Company, a wholly owned subsidiary of Atlantic Richfield, holds varying undivided interests in petroleum concessions in Venezuela amounting to 54,821 net acres, from which the Company's net interest (interest after deducting royalty interests) in production of crude oil during the first six months of 1969 amounted to 84,828 barrels per day. Royalties payable to the Venezuelan Government amount to 25% on 95% of the crude oil production and 16⅔% on the remainder of such production and on gas produced.

Sinclair Venezuelan Oil Company (96.994% of the capital stock of which is owned by Atlantic Richfield) holds petroleum concessions in Venezuela totaling approximately 242,000 net acres. Sinclair Venezuelan's net interest in production of crude oil and natural gas liquids in Venezuela averaged 47,095 barrels daily during the first six months of 1969. With development drilling essentially complete, production can be expected to continue to decrease as a result of natural well decline. Re-evaluation of present concession acreage is continuing through further analysis of seismic and other data. Royalties payable to the Venezuelan Government range from 16⅔% to 20% of production.

Venezuelan income taxes in 1968 were computed at graduated rates ranging from 18% to 50% of taxable income after available credits. Atlantic Richfield's production for the year was of sufficient quantity to make the maximum rate applicable in computing its income tax.

Iran. A subsidiary of Atlantic Richfield has a 1.67% interest in the Iranian Oil Consortium from which it received during the first six months of 1969 an average of 29,822 net barrels of crude oil per day. Royalties payable to the Iranian government are 12.5% of production and Iranian income taxes are payable at the rate of 50% of taxable income. Atlantic Richfield also participates in Iran with two groups each holding jointly with the National Iranian Oil Company petroleum rights in the Persian Gulf. One group, in which Atlantic Richfield holds a 12.5% interest, consists of four companies and holds approximately 1,005,000 acres consisting of two blocks on one of which sixteen development wells have been completed and were placed on production in November 1968. The Company's net interest in production from these wells during the first six months of 1969 averaged 14,885 barrels of crude oil per day. Oil has been encountered on the other block but has not been declared commercial. The other group, in which Atlantic Richfield holds a 7.1% interest, consists of seven companies holding approximately 556,000 acres on which low gravity oil has been encountered which cannot be produced economically under today's production methods. In both groups the National Iranian Oil Company holds 50% of the rights.

Libya. Two wholly owned subsidiaries of Atlantic Richfield hold undivided interests ranging from 25½% to 51% in petroleum concessions for approximately 8,000,000 acres in Libya. Included in this acreage is the Raguba field in which the Company has a 25½% interest, which amounted during the first six months of 1969 to an average net production of 27,370 barrels per day. Royalties payable to

the Libyan Government amount to 12½% of production. Taxes paid in 1968 amounted to approximately 50% of taxable income. As has recently been announced, a change of government has taken place in Libya, and the new regime has announced it would honor the prior government's commitments. The Company's operations have not been affected.

Algeria. On April 25, 1969 the Algerian Government published a decree forfeiting all the rights and mining (oil) titles in Algeria held by Sinclair Mediterranean Petroleum Company, a wholly owned subsidiary of the Company, the principal portion of which was a 28% interest in the Rhourde el Baguel which amounted in 1968 to an average gross production of 26,258 barrels of oil daily. The Company considers the Algerian Government's action to be without legal foundation and has initiated arbitration proceedings in an effort to protect and preserve its interests. Sinclair Mediterranean Petroleum Company's operations and revenues in Algeria have been under government control since June 1967. In July 1968 the parent company concluded that government control might be extended indefinitely and since that date has excluded earnings generated by this subsidiary from consolidated earnings in addition to providing a partial reserve for loss of the investment.

Another subsidiary of Atlantic Richfield has a net profit interest of 7.87% of the profits derived from permits covering approximately 1,500,000 acres in the Rhourde Hamra of Algeria. Several wells have been successfully completed on the permits and have indicated significant reserves of oil and natural gas. These wells have not yet been placed in production.

North Sea. Subsidiaries of Atlantic Richfield hold an undivided 43⅓% interest in production licenses granted by the United Kingdom covering about 1,800,000 acres under the North Sea. A portion of the Hewett Field lies within these licenses and a field unit has been formed in which the subsidiaries will have approximately a 19.85% interest. Sixteen development wells have been drilled in the field and natural gas production began in 1969. Contracts for a term of twenty-five years, beginning October 1, 1969, were entered into with the British Gas Council to sell all of Atlantic Richfield's share of the production from the Hewett Field. Two other apparently commercial gas accumulations have been found on this acreage, one immediately north of the Hewett Field in which two wells have tested gas, and the other just east of the Leman Bank Field where one well encountered gas in the same formations which produce in that field. Atlantic Richfield also holds an undivided one-quarter interest in about 274,000 additional acres, also in the United Kingdom portion of the North Sea, on which seven exploratory wells have been drilled; two of these wells have tested gas, but further evaluation will be necessary to determine the commercial potential of this area. In the same general area, Atlantic Richfield also holds an undivided one eighth interest in a block of about 49,000 acres on which a well has been drilled and which tested non-commercial. Royalties payable to the United Kingdom are 12% of gross production. The tax rate is 45% of taxable income.

In the Netherlands North Sea Continental Shelf, subsidiaries of the Company hold undivided interests ranging from 43⅓% to 76⅔% in three prospecting licenses covering approximately 306,000 acres. An exploratory dry hole was drilled on a portion of this acreage in an attempt to evaluate previously obtained seismic information.

Indonesia. A subsidiary of Atlantic Richfield owns an interest in a production sharing contract in the Republic of Indonesia. Under the terms of the contract, all costs are to be recovered out of a maximum of 40% of daily production. The subsidiary owns an undivided 46% interest in 35% of the remaining production. The agreement covers approximately 13,440,000 acres offshore in the Northwest Java section of the Indonesian Continental Shelf. Drilling operations were commenced in early September 1968 and a discovery well was completed in February 1969. This well produced a stabilized oil flow of 2,600 barrels daily from a zone between 2,230 and 2,260 feet. A confirmation well was completed in May 1969 which established nine hydrocarbon bearing zones in depths between 2,218 feet and 3,660 feet. This latter well tested oil from five separate zones at stabilized rates ranging from 384 barrels to 1,464 barrels daily. Four zones tested gas at rates ranging from 530,000 cubic feet a day to 6,748,000 cubic feet daily. The two wells were temporarily capped. A third well has been drilled on the same geological structure to evaluate further its economic potential. This third well was not commercially productive although it did serve to establish the Western limits of production on the structure. A fourth well has been drilled at a location six and one half miles south of the discovery well. This well tested oil from two separate zones at stabilized rates of 1,150 barrels daily each. The well has been capped and the drilling rig is being moved to a previously tested structure 20 miles northwest of the present location.

General. Additionally Atlantic Richfield conducts producing operations in Colombia and Peru, and exploratory operations on its holdings in Argentina, Australia, Bolivia and South Africa.

Approximately 95% of Atlantic Richfield's proved domestic reserves of natural gas are committed under long-term sales contracts which generally provide for an increasing scale of prices during the term of the contract. About 62% of the volume of natural gas sold by Atlantic Richfield is subject to price regulation by the Federal Power Commission under the Natural Gas Act of 1938.

Rate proceedings have been instituted by the Federal Power Commission for interstate gas produced from the Southern Louisiana, Hugoton-Anadarko, Texas Gulf Coast, other Southwest and Offshore Southern Louisiana areas. It is anticipated that no final decision including judicial review will be rendered prior to 1970. The Supreme Court has upheld the Federal Power Commission's assertion of jurisdiction over Atlantic Richfield's interest in the installment sale of leasehold gas rights in the Ship Shoal area of offshore Louisiana. Proceedings are now pending before the Commission to determine the appropriate regulatory status of the Ship Shoal transaction. The regulatory method ultimately determined may involve reduction in or return of the leasehold purchase price received by Atlantic Richfield. Final dispositions may not occur until 1970 or later. See Note 6 to "Notes to Consolidated Financial Statements" herein.

Reserves—Atlantic Richfield Segment

Prior to the merger DeGolyer and MacNaughton estimated the net proved premerger reserves of Atlantic Richfield as of January 1, 1969, as follows:

DEGOLYER AND MACNAUGHTON
5625 DANIELS AVENUE
DALLAS, TEXAS

February 17, 1969

ATLANTIC RICHFIELD COMPANY
717 Fifth Avenue
New York, New York 10022

Gentlemen:

Pursuant to your request we have made an investigation of the crude oil and condensate, gas liquids, and gas reserves of the Atlantic Richfield Company and its wholly-owned subsidiaries, hereinafter collectively referred to as the "Company."

We have been acquainted generally with the operations of the Company for many years, this being our nineteenth complete study of the Company's reserves.

During the present investigation we consulted freely with the officers and employees of the Company and were given access to such accounts, records, geological and engineering reports and other data as were desired for examination. This report is based upon the results of this investigation and upon reconsideration of data obtained in previous investigations. It was not considered necessary to make a field examination of the physical condition and operations of the properties in which the Company is interested. Further, the character of ownership of the properties and factual data furnished by the Company were accepted as represented.

We estimate that as of January 1, 1969, the net proved liquid hydrocarbon reserves of the Company, domestic and foreign, were 2,183.1 million barrels (before reduction for quantities estimated to be required to extinguish production payments referred to below). Approximately 95 percent of these net proved reserves was developed. Of the 2,183.1 million barrels of net proved reserves, 1,193.7 million barrels are in the United States and Canada, and 989.4 million barrels are in other countries.

We estimate that as of January 1, 1969, the net proved gas reserves of the Company, domestic and foreign, were 5.83 trillion cubic feet (before reduction for quantities estimated to be required to extinguish production payments referred to below). Approximately 92 percent of these net proved reserves was developed. Of the 5.83 trillion cubic feet, 5.33 trillion cubic feet are in the United States and Canada. Gas volumes in this report were calculated using standard units of pressure measurement which have been adopted in the various areas of operation. In some fields and areas no reduction in gas volumes has been made for quantities lost due to liquid extraction nor for the portions which may be retained for extraction services.

No consideration has been given in these estimates of reserves to the discovery in 1968 of oil and gas in commercial quantity with the completion of two wells on the North Slope of Alaska.

Of the net proved reserves in the United States and Canada, approximately 50 percent of the oil, condensate, and gas liquids and 31 percent of the gas are in fields and reservoirs presently subjected to some form of fluid injection, including pressure maintenance, cycling, and secondary recovery projects. No allocation has been made for the portion of these net proved reserves recoverable only because of fluid injection. There currently are no fluid injection projects of significance in foreign areas.

These reserves have not been reduced for quantities estimated to be required to extinguish production payments from certain properties formerly owned by Argo Oil Corporation and by other companies. The portion of the original production payments outstanding as of December 31, 1968, was approximately \$50,424,000 and the Company estimates that 18,643,000 barrels of oil and gas liquids, and 39,470 million cubic feet of gas will be required to extinguish these payments and produce the hydrocarbons from the subject properties during the remaining periods of the payments, based on January 1, 1969 market prices for oil and gas liquids, and contract prices for gas.

All reserves herein estimated are based upon continuance of present operating practices and methods of proration that are ordered by the various regulatory bodies.

Submitted,

DeGolyer and MacNaughton

Reserves—Sinclair Segment

Prior to the merger, Sinclair estimated that its net proved reserves* of crude oil and natural gas liquids at December 31, 1968, aggregated 1,146 million barrels. Of such reserves 834 million barrels are located in the United States and Canada and 312 million barrels are located in Venezuela, Libya, Algeria, Colombia and Peru (128 million barrels in Algeria). It is estimated that of such reserves 807 million barrels in the United States and Canada and 251 million barrels in foreign countries (109 million barrels in Algeria) are recoverable under current operating conditions. The above reserve estimates exclude shut-in gas liquids where no facilities are in operation or under construction for the recovery of such liquids.

Sinclair estimated that its net proved reserves of natural gas at December 31, 1968, aggregated 5.08 trillion cubic feet, of which 4.88 trillion cubic feet are located in the United States and Canada. Approximately 96% of such net proved reserves is recoverable without drilling additional wells.

These reserves include approximately 19 million barrels of crude oil and natural gas liquids and 114 billion cubic feet of natural gas which it is estimated will accrue to Atlantic Richfield (during the life of outstanding production payments held by others) from its equity in properties subject to such payments. It is estimated that the proceeds to be derived therefrom will approximately equal the cost of operating the properties subject to such production payments. Of the estimated net proved reserves in the United States and Canada, approximately 61% of the crude oil and natural gas liquids and 19% of the natural gas are in fields and reservoirs presently subjected to some form of fluid injection, including pressure maintenance, cycling, and secondary recovery projects. No allocation is made for the portion of net proved reserves recoverable only because of such fluid injection. Pressure maintenance operations are also carried out in certain fields and reserves in Venezuela and Colombia.

Manufacturing

Atlantic Richfield owns and operates five refineries in the United States, four of which are accessible to ocean-going vessels, with a rated total capacity of 670,000 barrels of crude oil per day. Refinery

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* Proved reserves and the extent to which they may be recovered are estimates and cannot be accurately measured. These estimates are based upon tests and calculations made by engineers and are subject to revision as additional experience accumulates. Net reserve figures are based on adjustments made to exclude royalties and amounts presently estimated to be required to extinguish various production payments held by others which are applicable only to properties in the United States and did not represent indebtedness of Sinclair. At December 31, 1968, the unpaid portion of such outstanding production payments was approximately \$205,566,000. Sinclair estimated that 66,294,000 barrels of crude oil and natural gas liquids and 599 billion cubic feet of natural gas would be required to extinguish such production payments based on market prices in effect during 1968.

locations and their rated crude oil capacity are: Houston, Texas—200,000 barrels per day; Watson, California—165,000 barrels per day; Philadelphia, Pennsylvania, 155,000 barrels per day; East Chicago, Indiana—120,000 barrels per day; and Sinclair, Wyoming—30,000 barrels per day. Refinery runs expressed as percentages of rated capacity during 1968 and the first six months of 1969 were as follows: Houston—97.9% and 94.9%; Watson—90.3% and 88.7%; Philadelphia—88.0% and 84.3%; East Chicago—92.2% and 100.3%; and Sinclair—89.6% and 100.0%.

Atlantic Richfield is building a refinery at Cherry Point, Washington, to have a capacity of approximately 100,000 barrels per day and which is expected to go on stream in late 1971.

The Company also proposes to build a refinery having a capacity of 5,000 to 10,000 barrels per day in the Fairbanks, Alaska area. It is planned that construction of this refinery will be completed by early 1972.

Atlantic Richfield has under consideration the construction of a refinery in the Machiasport, Maine area to have a capacity of 100,000 barrels a day or more. It is estimated that three years would be required to design and construct the facility.

The following table shows crude oil processed and refined products manufactured at Atlantic Richfield's domestic refineries for the years 1964 through 1968 and the first six months of 1969:

	1964	1965	1966	1967	1968	First Six Months of 1969
			(Barrels per day)			
Crude Oil Run	601,124	639,146	642,203	656,869	618,128	639,468
Gasoline and Naphtha	280,798	299,712	299,571	321,779	332,591	348,053
Kerosene (including jet aircraft fuels)	53,082	49,622	49,987	60,059	61,580	61,883
Lubricants	10,263	10,485	10,622	11,022	11,154	12,987
Distillate Fuel	111,645	110,491	108,480	108,844	103,460	108,023
Residual Fuel	111,551	112,325	106,506	109,045	95,156	79,599
Asphalt	23,505	27,770	28,299	27,876	24,652	21,995
Chemicals and Wax	22,668	26,874	27,426	34,949	40,205	56,180

Atlantic Richfield does not produce sufficient domestic crude oil to meet its refinery requirements and therefore supplements its own production through purchases of crude oil from other domestic producers. During the first six months of 1969 the Company purchased approximately 320,000 barrels of crude oil daily for use in its refineries. However, because of locations of some producing properties in relation to the Company's refineries and for various other reasons, approximately 158,000 barrels per day of domestic crude oil produced by the Company were sold to others. Therefore, Atlantic Richfield's net purchases of domestic crude oil averaged approximately 162,000 barrels daily.

Imports of crude oil into the United States are restricted pursuant to the control program initiated by the Federal Government in 1959. Under the provisions of this program Atlantic Richfield's crude oil import quota for its east coast and mid-continent refineries has been based on its importing history prior to 1959, with gradual reductions provided for until a level based on actual refinery inputs is reached. Atlantic Richfield's quota for its Watson, California refinery is already on an input basis. During the first six months of 1969 Atlantic Richfield's total refinery quota was 55,300 barrels per day of crude oil and unfinished oils. During the first six months of 1969 Atlantic Richfield's refineries processed about 97,000 barrels per day of foreign crude oil, which amounts to 15.17% of the total processed. The excess of the foreign crude oil processed over the amount imported was obtained through exchanges of Atlantic Richfield's domestic crude oil for foreign crude imported by various U. S. refiners and other companies.

A refinery at Puerto de la Cruz, Venezuela with a Crude Oil processing capacity of 40,000 barrels a day is owned and operated by a subsidiary of Atlantic Richfield. Refinery runs during the first six months of 1969 averaged 31,638 barrels daily, including a daily average of 23,925 barrels of condensate processed for another company under a new long-term agreement begun in early 1969. The average rate of refinery runs during this period substantially represented capacity thruput for the refinery considering the type of condensate being processed.

Atlantic Richfield operates petrochemical units at four of its refineries in the United States and at various other plants in the United States and abroad. These plants or companies in which Atlantic Rich-

field has an interest produce waxes and petrochemicals which are used in the manufacture of synthetic rubber, synthetic fibers, paint, plastics, detergents, urethane foam and other end products.

Atlantic Richfield began plant food product retailing in 1965 and operates 114 fertilizer distribution centers. A plant food manufacturing complex at Fort Madison, Iowa, with a capacity to produce 1,000 tons of anhydrous ammonia and 2,000 tons of chemically-mixed fertilizers a day, was recently put in operation.

Sales of chemicals, including petrochemicals, constituted approximately 6% of revenues of Atlantic Richfield and its consolidated subsidiaries during the first six months of 1969.

Entry has been made into the nuclear field through a wholly owned subsidiary, Nuclear Materials and Equipment Corporation, located in Apollo, Pennsylvania, which processes and manufactures nuclear fuels and other nuclear materials. Atlantic Richfield through a wholly owned subsidiary, Atlantic Richfield Hanford Company, has contracted with the United States of America, acting through the Atomic Energy Commission, for the operation of the chemical processing complex of the AEC's Hanford plant in the State of Washington. Nuclear sales revenues represented approximately 2% of the total revenues of Atlantic Richfield during the first six months of 1969.

Marketing

Atlantic Richfield markets gasoline and other refined petroleum products on the Eastern seaboard of the United States (except Maine) under the trademark "Atlantic", in the six western states of California, Arizona, Nevada, Washington, Oregon and Idaho under the trademark "Richfield", and in the midwestern and Rocky Mountain states (except Montana) under the trademark "Sinclair". Atlantic Richfield's domestic gasoline sales are made through more than 25,000 branded retail outlets. About 10,000 of these outlets, accounting for approximately 53% of Atlantic Richfield's total domestic gasoline sales, are owned by Atlantic Richfield or are under long-term lease to it and are operated by individual dealers who lease them from Atlantic Richfield. Cargo and bulk sales are also made to commercial and industrial consumers.

Total product sales of Atlantic Richfield for the years 1964 through 1968 and the first six months of 1969 were as follows:

	1964	1965	1966	1967	1968	First Six Months of 1969
			(Barrels per day)			
Petroleum Products:						
United States:						
Gasoline and Naphtha	282,609	298,210	306,557	328,232	336,252	375,448
Liquid Petroleum Gas	47,454	52,814	61,746	59,717	53,845	52,827
Kerosene (includes jet aircraft fuels)	37,832	31,800	35,601	47,386	50,896	53,808
Lubricants	8,809	8,752	9,448	9,156	9,415	11,204
Distillate Fuel	121,653	121,464	127,238	132,338	131,894	175,168
Residual Fuel	74,603	81,680	81,074	75,518	63,712	79,268
Asphalt	22,463	24,088	26,359	28,378	28,516	19,955
Wax	2,966	2,313	2,643	7,408	5,572	3,366
Total	598,389	621,121	650,666	688,133	680,102	771,044
Foreign—All Petroleum Products	64,771	71,432	79,922	79,049	92,436	69,317
Total United States and Foreign	663,160	692,553	730,588	767,182	772,538	840,361
			(Tons per day)			
Chemical Products:						
United States	2,328	3,053	3,753	4,193	4,752	4,700
Foreign	515	536	555	577	524	414
Total United States and Foreign	2,843	3,589	4,308	4,770	5,276	5,114

Foreign marketing operations are conducted in Brazil, England, Belgium, Germany, Haiti, Dominican Republic, El Salvador, the Bahamas, Peru and Puerto Rico. The results of these operations are included in the consolidated financial statements of Atlantic Richfield in this Prospectus with the exception of the Company's two Brazilian subsidiaries.

The wholly owned Brazilian subsidiaries of Atlantic Richfield own marketing and petrochemical manufacturing facilities throughout Brazil and although product sales of approximately 35,000 barrels per day are substantial, the inclusion of their net income in Atlantic Richfield's consolidated net income would have no material effect on the latter. On December 31, 1968, shareholders' equity in the two Brazilian subsidiaries was approximately $16,954,000.

Transportation

Atlantic Richfield operates facilities for the transportation of both crude oil and refined products.

The crude oil pipeline system of Atlantic Richfield in the United States comprises approximately 2,968 miles of gathering lines serving important producing fields in California, Montana, New Mexico, Oklahoma, Texas and Wyoming, and 3,610 miles of trunk lines, ranging from 6 to 24 inches in diameter, extending from producing areas to refineries and terminals on the Texas Gulf Coast and in Los Angeles, Chicago, and Sinclair, Wyoming.

Atlantic Richfield's petroleum products pipeline system in the United States comprises approximately 3,300 miles of trunk lines ranging from 3 to 14 inches in diameter. This system, in conjunction with affiliated carriers, connects the refineries at East Chicago, Indiana and Houston, Texas and serves communities along the pipelines comprising the system. Such lines also extend from (1) Corpus Christi to San Antonio and Austin, Texas, (2) Sinclair, Wyoming to the Denver, Colorado area, (3) Philadelphia, Pennsylvania to points in Pennsylvania and New York, (4) East Chicago, Indiana to points in Ohio and to Detroit, Michigan and (5) the Watson refinery to other parts of the Los Angeles area.

Atlantic Richfield's ethylene pipeline system comprising 118 miles extends from Houston to Port Arthur, Texas, connecting plants in those cities and serving intermediate points.

Atlantic Richfield also has undivided ownership interests, ranging from 12.2% to 70%, in 1,663 miles of crude oil pipelines and 821 miles of products pipelines. Atlantic Richfield has stock interests ranging from 3.4% to 50% in pipeline companies which own 9,607 miles of crude oil pipelines and 5,489 miles of products pipelines in the United States. The above products pipelines include 3,665 miles of which the Company has agreed to transfer 85% to 100% of its ownership interests to BP.

During the first six months of 1969 shipments through Atlantic Richfield's pipeline system in the United States for Atlantic Richfield and others, aggregated 42.2 billion barrel-miles of crude oil and natural gas liquids and 9.0 billion barrel-miles of refined products. In addition, shipments of ethylene aggregated 14.7 billion pound-miles.

Atlantic Richfield owns and operates seven ocean-going tankers with an aggregate deadweight tonnage of 211,138 tons and operates under long-term charters 18 ocean-going tankers with an aggregate deadweight tonnage of 735,186 tons. These 25 tankers have an aggregate carrying capacity of 6.6 million barrels. Of this aggregate deadweight tonnage, the Company is obligated to time charter to BP up to 120,000 tons through December 31, 1969. Additionally, BP has the option up to September 30, 1969, either to long-term charter or to designate a third person to whom Atlantic Richfield shall sell such tonnage. Atlantic Richfield also makes use of voyage charters and operates smaller vessels on the Great Lakes and inland waterways and along the coast. Total deliveries of crude oil and refined products by all owned and chartered vessels during the first six months of 1969 amounted to 105 million barrels. Two new 69,800-ton United States flag tankers will be added to the fleet in 1971 to carry crude oil from Alaska's Cook Inlet to Company refineries on the West Coast. In addition, three United States flag vessels of approximately 120,000 deadweight tons will be added to the Atlantic Richfield fleet between December 1972 and December 1974 to carry North Slope crude oil from the southern terminus of the proposed trans-Alaska pipeline system to the West Coast.

Research and Patents

Atlantic Richfield engages in petroleum and petrochemical research for new and improved methods, equipment and products at four facilities located at Philadelphia and Glenolden, Pennsylvania; Plano, Texas; and Harvey, Illinois. Nuclear research and development is carried out by a subsidiary based in

Apollo, Pennsylvania. Total research and development expenditures in millions of dollars were $19.8; $19.6; $21.9; $24.3 for the years 1965, 1966, 1967, 1968.

Atlantic Richfield owns numerous patents, many of which are available for license to the industry, and is itself licensed under a number of patents which are available generally to the industry. Atlantic Richfield's operations are not dependent upon any particular patent or patents or upon any exclusive patent rights.

Capital Expenditures

Capital expenditures by Atlantic Richfield for the acquisition, improvement and replacement of properties, plant and equipment for the years 1964 through 1968 and the first six months of 1969 aggregated approximately $2,245,268,000 as shown below:

	1964	1965	1966	1967	1968	First Six Months of 1969	Total
	(Thousands of Dollars)						
Producing	$268,733	$209,433	$251,352	$282,342	$284,152	$127,728	$1,423,740
Pipe Lines	10,955	5,139	8,849	6,922	3,043	2,492	37,400
Marine	5,836	10,025	506	4,864	1,416	1,335	23,982
Manufacturing	33,029	66,509	126,661	106,230	65,462	27,895	425,786
Marketing	36,101	40,455	63,241	61,740	66,593	28,075	296,205
Other	2,680	7,317	13,758	8,587	4,639	1,174	38,155
Total	$357,334	$338,878	$464,367	$470,685	$425,305	$188,699	$2,245,268

Employee Relations

Atlantic Richfield has approximately 30,000 employees.

Atlantic Richfield and certain subsidiaries have retirement, group life insurance, vacation, disability, hospitalization and thrift plans for their employees substantially comparable to similar plans prevailing in related industries.

About 45% of the employees of Atlantic Richfield are represented by collective bargaining agents. Contracts covering about 7,500 employees are in effect with seven unaffiliated unions. About 6,100 employees are represented by eleven unions affiliated with the AFL-CIO.

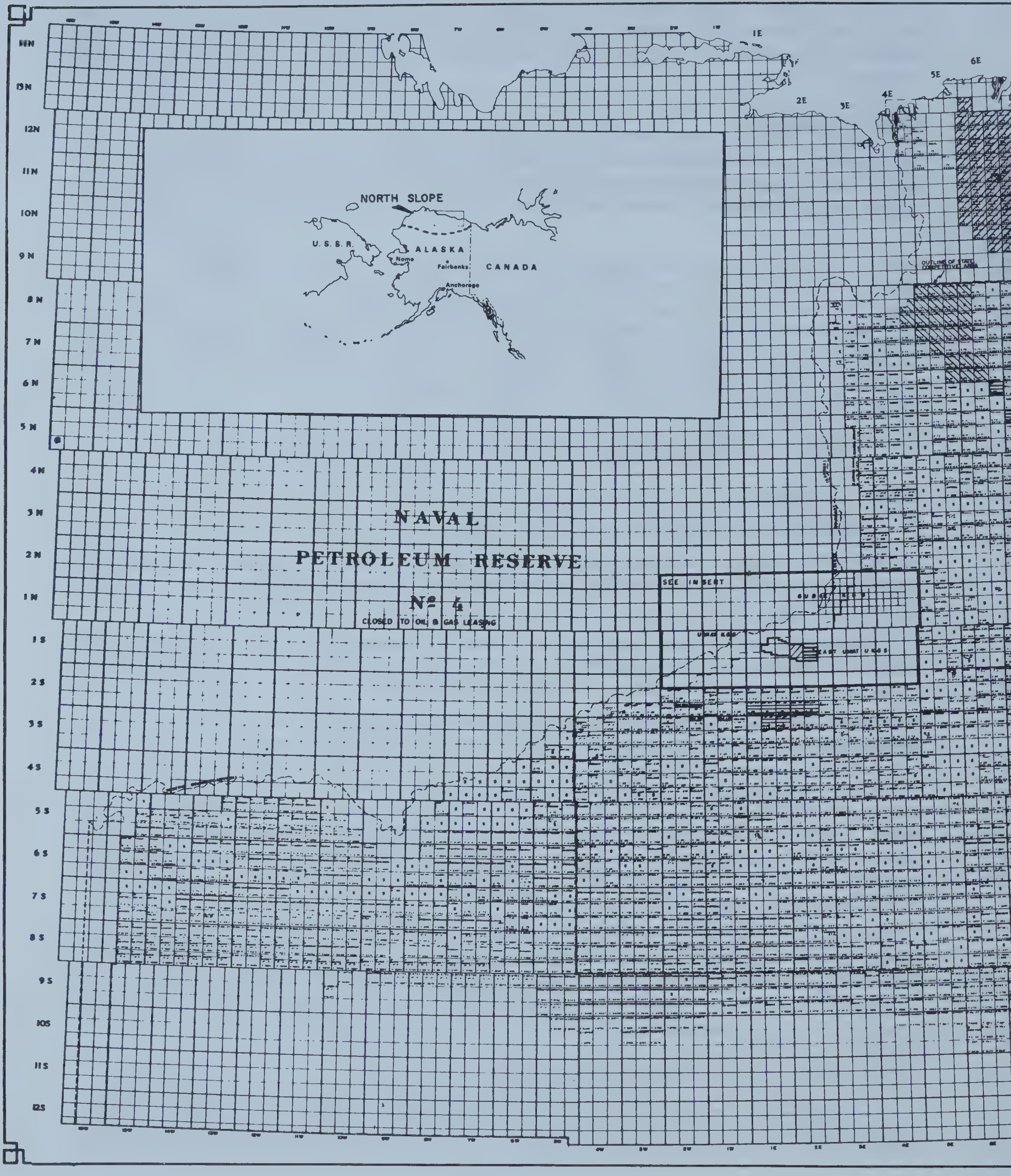
Atlantic Richfield has completed collective bargaining negotiations with most of the unions representing its employees in line with industry settlements made in the early part of this year.

Office Buildings. Atlantic Richfield leases space for its executive offices at 717 Fifth Avenue, New York, New York, and additional space for general office purposes in New York City; Chicago, Illinois; Los Angeles, California, and other cities. The Company owns and occupies for general office purposes buildings in Philadelphia, Pennsylvania, Dallas, Texas and Independence, Kansas. It is contemplated that the Company will dispose of its buildings in Philadelphia and Dallas and move into leased space in those cities.

Atlantic Richfield has entered into a partnership with the Bank of America National Trust and Savings Association, Kaiser Industries Corporation and Cushman & Wakefield, Inc., for the purpose of constructing, at the approximate cost of $140,000,000, a major office building complex in downtown Los Angeles, California. The complex will contain approximately 2.2 million square feet of rentable space and is to be constructed partially on the site of the former "Richfield Building". This office building project in Los Angeles is to be known as "Atlantic Richfield Plaza", and Atlantic Richfield intends to lease from the partnership space for general office purposes.

Competition. The petroleum industry is highly competitive in all its phases, including the search for and development of new sources of supply and the manufacturing, distribution and marketing of petroleum products. It also competes with other industries in supplying energy, fuel and certain products.

NORTH SLOPI



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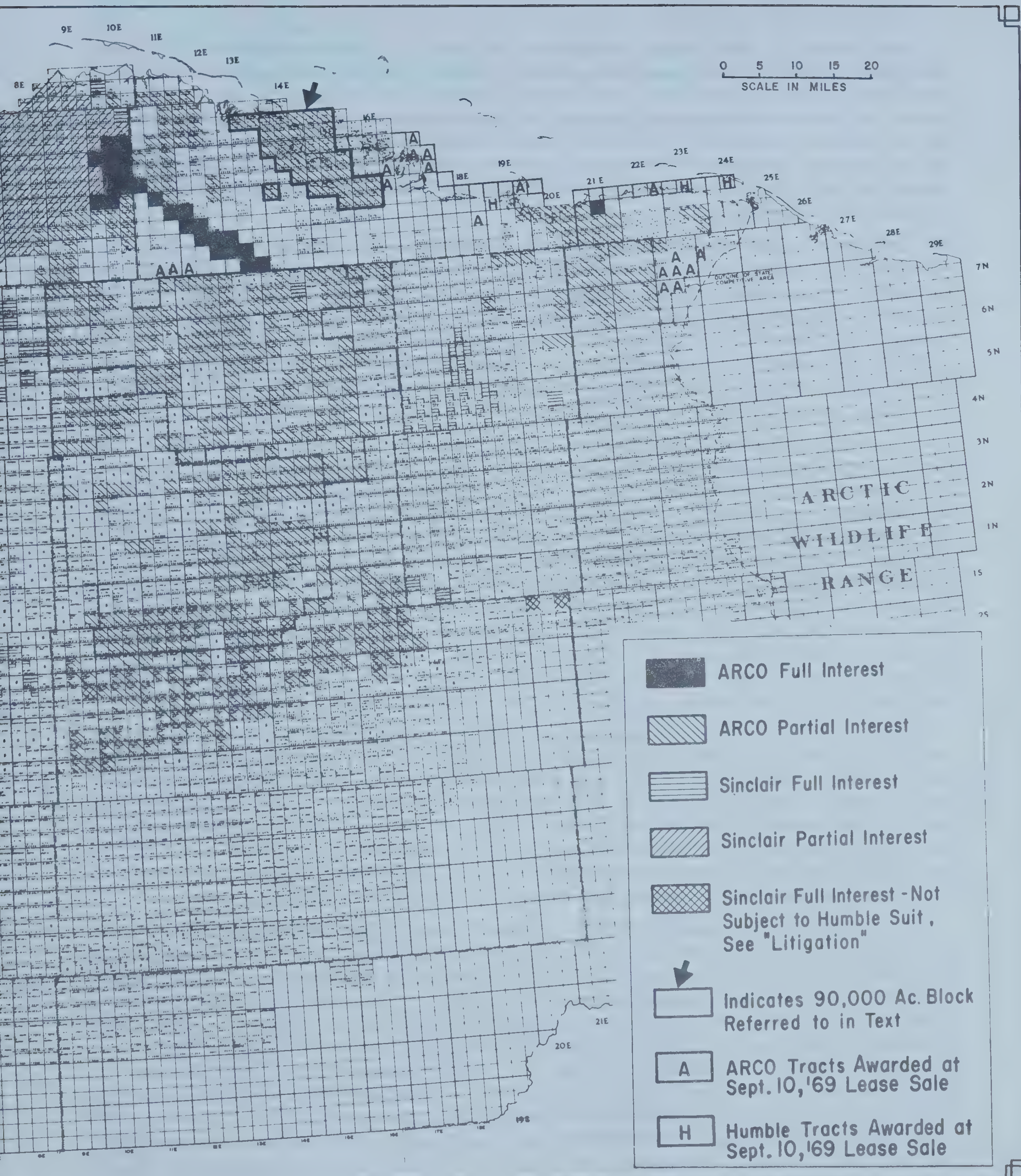
AREA MAP



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WILDLIFE
RANGE
ARCO Full Interest
ARCO Partial Interest
Sinclair Full Interest
Sinclair Partial Interest
Sinclair Full Interest - Not Subject to Humble Suit, See "Litigation"
Indicates 90,000 Ac. Block Referred to in Text
A
ARCO Tracts Awarded at Sept. 10, '69 Lease Sale
H
Humble Tracts Awarded at Sept. 10, '69 Lease Sale

LITIGATION

Reference is made to "Recent Developments" herein for information concerning anti-trust litigation concerning the merger with Sinclair.

On February 19, 1969, Miriam S. Kappalman brought suit as a Sinclair stockholder in the United States District Court for the Southern District of New York against the Company, Sinclair and its directors and Gulf & Western Industries, Inc. The complaint alleges, among other things, that the defendants violated the federal securities laws in connection with the solicitation of proxies and in the purchase and sale of Sinclair Common Stock. The plaintiff asked, among other things, that the merger of Sinclair into the Company be enjoined and that the agreement dated December 31, 1968 between Gulf & Western and the Company (as described herein) and the vote by the Sinclair shareholders on the merger be declared null and void.

On May 15, 1969, an Atlantic Richfield shareholder, Annette Abramson, brought suit in the same court against the Company, those individuals who were its directors prior to the merger, Sinclair and Gulf & Western Industries, Inc. on grounds similar to those alleged in the Kappalman suit. The plaintiff asked, among other things, that the merger with Sinclair be set aside, and that the agreement between Gulf & Western Industries and the Company and the vote by the Atlantic and Sinclair shareholders on the merger be delared null and void. Hughes Hubbard & Reed has rendered an opinion to the Company that there is no probability of a material judgment or recovery against the Company arising from the stockholder suits referred to in this paragraph and the preceding paragraph.

On June 5, 1969, Humble Oil & Refining Company brought suit in the United States District Court for the Central District of California (Los Angeles) against the Company in an action seeking declaratory relief and specific performance pertaining to certain provisions of the 1964 Arctic Slope Agreement between Humble and Richfield Oil Corporation. The complaint seeks a judgment declaring that under the Agreement Humble has the right to elect whether to purchase, at the cost to the Company, half of the Sinclair North Slope interests, which the Company has owned since the merger of Sinclair into the Company. Humble asks that the controversy be referred to a master for an account of such interests and their cost to the Company. The property subject to this suit is shown on the preceding map. The Company has employed counsel which is currently investigating the facts and legal principles involved but is not yet in a position to render any judgment as to the likely outcome. Depending on the results of further exploration of this property, the outcome of this litigation might be of material significance to the contributions from this acreage to future profits of the Company.

On September 15, 1969, a former employee of the Company, Delbert C. Reibert, commenced an action in the United States District Court for the Northern District of Oklahoma. The plaintiff purported to sue individually and on behalf of employees of the former Sinclair Oil Corporation and the Company, and on behalf of employment agencies which provided temporary help for each corporation. The complaint alleges generally that the merger between Sinclair and Atlantic Richfield violated the anti-trust laws. The plaintiff seeks divestiture by the Company of "all interest in the Sinclair Oil Corporation," and also seeks on behalf of the purported class the sum of $20,000,000 trebled. Time for answer has not yet expired and counsel recently retained by the Company are studying the complaint.

In December 1963, a minority stockholder, Francis S. Levien, of Sinclair Venezuelan Oil Company ("Venezuelan") commenced actions in the Supreme Court of the State of New York, County of New York, and in the Court of Chancery of the State of Delaware, New Castle County, against Sinclair, Venezuelan and certain individuals who were then directors or officers and some former directors of Venezuelan. The actions were brought by the plaintiff individually, and, as a stockholder of Venezuelan on behalf of himself and all other stockholders of Venezuelan similarly situated, as class actions in a representative capacity, and on behalf of Venezuelan. The complaints are based upon allegations that transactions between Sinclair and Venezuelan were unfair to Venezuelan and that Sinclair and the individual defendants sought to reduce the intrinsic and market values of the stock of Venezuelan. The complaints allege that damages of $100,000,000 have been suffered by Venezuelan and that Venezuelan and its minority stockholders have suffered other damages. The plaintiff seeks an accounting, the appoint-

ment of a receiver for Venezuelan pending the determination of the actions, an injunction, attorney's fees and other relief. Atlantic Richfield now owns 96.994% of the capital stock of Venezuelan. The Court in Delaware ordered the trial to proceed in two parts, one part as to liability and the other as to damages. The trial of the liability issue was concluded in October, 1968. The case is now awaiting decision on the issue of the liability of Sinclair. Proskauer Rose Goetz & Mendelsohn have handled the defense of this matter on behalf of the Company and have filed a post-trial brief urging the complaint be dismissed on the merits.

MANAGEMENT OF ATLANTIC RICHFIELD

Directors and Executive Officers

The directors and executive officers of Atlantic Richfield are:

Name	Position or Office
Robert O. Anderson	Director, Chairman of the Board and chief executive officer
T. F. Bradshaw	Director and President
O. P. Thomas	Director and Chairman of the Executive Committee
Rollin Eckis	Director, Vice Chairman of the Board and Executive Vice President
Louis F. Davis	Director and Executive Vice President
J. P. Downer	Director and Executive Vice President
Louis M. Ream, Jr.	Director and Executive Vice President
Courtlandt S. Gross	Director
J. A. Grazier	Director
Charles S. Jones	Director
D. M. Kendall	Director
Ellmore C. Patterson	Director
Kendrick R. Wilson, Jr.	Director
R. D. Bent	Senior Vice President
E. M. Benson, Jr.	Vice President
R. R. Chambers	Vice President
R. M. Cooper	Vice President
M. G. Davis	Vice President
R. L. Elston	Vice President
Thomas C. Frick	Vice President
J. W. Gendron	Vice President
J. B. Harrison	Vice President
H. W. Jones	Vice President
William F. Kieschnick, Jr.	Vice President
A. W. Kusch	Vice President
B. J. Lancaster	Vice President
G. B. Mallum	Vice President
Paul A. McKim	Vice President
B. E. Milner	Vice President
J. S. Morrison	Vice President
Stuart C. Mut	Vice President
R. W. Reed	Financial Vice President
J. A. Scott	Vice President

Name	Position or Office
J. W. Simmons	Vice President
C. A. Walsh	Vice President
Henry B. Weaver	Vice President and General Counsel
J. L. Wilson	Vice President
P. E. Cundey	Treasurer
R. G. Nelson	Secretary
E. J. Minahan	Controller
C. J. Francisco	Vice President, chemical division
Paul M. Pitts, Jr.	Vice President, chemical division
L. M. Richards	Vice President, chemical division
Z. M. Shapiro	Vice President, chemical division
G. T. Stocking	Vice President, chemical division

Except as noted below each of the above-named officers has for the past five years been actively engaged in the business of Atlantic Richfield. Messrs. Benson, Eckis, Gendron, Nelson and Richards were employed in various executive positions with Richfield Oil Corporation for at least three years prior to that company's merger into Atlantic Richfield on January 3, 1966. Messrs. Thomas, Downer, Chambers, Cooper, Elston, Mallum, Morrison and Scott were employed in various executive positions with Sinclair for at least five years prior to that company's merger into Atlantic Richfield on March 4, 1969. Mr. Weaver was elected Vice President and appointed General Counsel of Atlantic Richfield effective January 1, 1967 prior to which time he was engaged in the private practice of law in Washington, D. C. Dr. Shapiro has been President of Nuclear Materials and Equipment Corporation, now a wholly-owned subsidiary of Atlantic Richfield, for more than five years and on May 5, 1968 was elected a Vice President of the chemical division of Atlantic Richfield.

As of August 31, 1969, the above-named officers and directors as a group were the beneficial owners, directly or indirectly, of 716,139 shares of the Company's Common Stock (1.64% of the Company's Common Stock outstanding at that date); 18,213 shares of its $2.80 Preference Stock; and 11,080 shares of its $3.00 Preference Stock. They owned no other equity securities of the Company.

Remuneration of Directors and Officers

The following table sets forth information as to the directors of Atlantic Richfield in 1968 whose remuneration from Atlantic Richfield in that year exceeded $30,000, including the three highest paid officers, and the total remuneration paid to all directors and officers as a group.

Name	Capacity in which remuneration was received	Aggregate direct remuneration (a)	Estimated annual retirement benefits (b)
Robert O. Anderson	Chairman of the Board and Chief Executive Officer	$ 156,250(c)	None
T. F. Bradshaw	President and Chairman of the Executive Committee	185,415(c)	$70,206
Louis F. Davis	Executive Vice President	80,081	31,658
Rollin Eckis	Executive Vice President	100,029	48,903
Charles S. Jones	Consultant	50,000(d)	None(d)
Louis M. Ream, Jr.	Executive Vice President	140,829	52,844
Henderson Supplee, Jr.(e)	Executive	50,596	37,682
All directors and officers (38 persons)(f)		2,534,208(g)	—

(a) Including reimbursed taxable moving expenses and cash payments under the Incentive Compensation Plan.

(b) With the exception of Mr. Supplee (See Note (e)) these figures are necessarily based upon assumptions, including assumptions that the individual will remain in the employ of Atlantic Richfield at his December 31, 1968

salary rate until he reaches normal retirement age of 65 and that the Atlantic Richfield Retirement Plan will remain in force in its present form. These figures include the portion of the individual's retirement benefits paid for by his own contributions.

(c) The salaries shown for Messrs. Anderson and Bradshaw include remuneration from a subsidiary for services performed for that company.

(d) Mr. Jones was Chairman of the Board of Richfield Oil Corporation. He retired as an officer of Richfield as of December 31, 1965, prior to the merger of Richfield into Atlantic Richfield on January 3, 1966. Under an employment agreement made in 1960 by Richfield, he is retained in a consulting capacity until June 30, 1970 at a compensation rate of $50,000 annually. Mr. Jones also received a lump sum pension payment under the Richfield Retirement Plan. He is not entitled to any further retirement benefits.

(e) Mr. Supplee served Atlantic Richfield in an executive capacity performing special assignments for the chief executive officer. He retired from the Board and Company service on September 30, 1968 and is receiving the retirement benefit indicated. Mr. Supplee has agreed to serve as a consultant for a ten year period from the date of his retirement at the rate of $2,000 per year.

(f) As used under this heading the term "officers" means the Chairman of the Board, the President, the Chairman of the Executive Committee, the Vice Presidents, the Treasurer, the Secretary and the Controller.

(g) In addition, Atlantic Richfield contributed $52,866 for 1968 for the account of directors and officers under the Atlantic Richfield Thrift Plan. The amounts contributed for the account of the officers named above were: Mr. Anderson, none; Mr. Bradshaw, $4,400; Mr. Davis, $2,350; Mr. Eckis, $2,999; Mr. Jones, none; Mr. Ream, none; and Mr. Supplee, $1,688. The plan provides that an employee may contribute up to 6% of his base pay. Atlantic Richfield then contributes an amount equal to 50% of the employee's contribution. The Board of Directors may in its discretion direct that Atlantic Richfield make an additional contribution for any year in which its net income exceeds 9% of shareholders' equity and long-term debt averaged over the year. Atlantic Richfield's contribution, and the securities and other items in which it may be invested by the trustees under the plan at the employee's direction, vest in the employee after fulfillment of certain conditions.

Awards in the total amount of $814,550 were made on April 15, 1968 for the plan year 1967 under the Atlantic Richfield Incentive Compensation Plan. The Plan provides that a Committee, composed of directors of Atlantic Richfield not eligible to receive awards, may make awards to directors, officers and other key personnel each year in cash, Common Stock or both in an aggregate amount not to exceed 4% of the portion of adjusted net income of Atlantic Richfield and consolidated subsidiaries for the preceding year which exceeds 6% of employed capital. The cash portion of such awards, made for the plan year 1967, is included in the remuneration shown in the table above. In addition, the number of shares of stock awarded to the individuals named above (as adjusted for a subsequent 2 for 1 split) were: Mr. Bradshaw, 890 shares; Mr. Davis, 444 shares; Mr. Eckis, 534 shares. All directors and officers as a group were awarded 4,818 shares. Awards in the amount of $781,900 were made to directors, officers and other key personnel on February 17, 1969 for the plan year 1968.

Ellmore C. Patterson, a director of Atlantic Richfield, is President of Morgan Guaranty Trust Company of New York. On December 31, 1968, the Company entered into a Credit Agreement in the amount of $432,500,000 with 15 banks, one of which is Morgan Guaranty, whose total commitment thereunder is $52,000,000 (See "Purchase of Sinclair Stock" herein). To date the Company has borrowed a maximum of $48,880,000 from that bank under the Credit Agreement, the amount presently borrowed being $26,000,000. In addition, Morgan Guaranty has made other loans in the ordinary course of business to Atlantic Richfield and has loaned funds to others which were used to purchase production payments from Atlantic Richfield.

The information under this heading relates to the persons who were directors and officers of the Company during 1968, and does not include information with respect to the persons who were officers and directors of Sinclair during 1968.

STOCK OPTIONS

Options to purchase shares of Atlantic Richfield Company Stock have been granted to key employees of Atlantic Richfield under its Incentive and Qualified Stock Option Plans, adopted by Atlantic Richfield's stockholders in 1952 and 1964, respectively. In addition options outstanding under the Richfield Oil Corporation Stock Option Plan at the time Richfield was merged into Atlantic Richfield were converted into and became options to purchase Atlantic Richfield $3.00 Preference Stock. In 1967, in connection with the acquisition of the assets of Nuclear Materials and Equipment Corporation

("Numec"), Atlantic Richfield assumed the restricted and qualified stock options outstanding under Numec's 1963 and 1965 Stock Option Plans on the basis of .255 shares of Atlantic Richfield Common Stock for each share of Numec's Common Stock covered by the options. No additional options may be granted under any of the foregoing plans except under the Atlantic Richfield Qualified Stock Option Plan. Options outstanding under these plans on August 31, 1969 were held by a total of 557 persons.

The terms of the options granted under Atlantic Richfield's Incentive Stock Option Plan and of those granted prior to 1964 under the Richfield and Numec Stock Option Plans as assumed by Atlantic Richfield were intended to conform to the definition of "restricted stock options" under Section 424 of the Internal Revenue Code. The terms of the options granted under Atlantic Richfield's Qualified Stock Option Plan and of those granted after 1963 under the Richfield and Numec Stock Option Plans as assumed by Atlantic Richfield were intended to conform to the definition of "qualified stock options" under Section 422 of the Internal Revenue Code.

The option price for each option granted under the Atlantic Richfield Incentive Stock Option Plan was at least 95% of the fair market value of the shares subject to the option on the date it was granted. The option price per share for options granted by Numec prior to 1964 under its 1963 Plan is 95% of the fair market value of Atlantic Richfield Common Stock at the close of business on the date of exercise, but in no event more than 95% of the fair market value of Numec's common stock (converted on the aforementioned basis to Atlantic Richfield Common Stock) at the time the option was granted. The option price per share for options granted after 1963 under the 1963 Plan and for options granted under the 1965 Plan was 100% of the fair market value of Numec's common stock (converted on the aforementioned basis to Atlantic Richfield Common Stock) at the time the option was granted. The option price for each option granted under the Richfield Stock Option Plan was the higher of either (a) 100% of the average of the highest and lowest prices at which shares of Richfield's common stock were sold on the New York Stock Exchange during the 30 days preceding the granting of the option or (b) 100% of the highest price per share at which such shares were sold on the New York Stock Exchange on the date on which the option was granted.

Under the Atlantic Richfield Qualified Stock Option Plan the option price must be at least 100% of the fair market value of the shares subject to the option on the date it is granted. A total of 230,465 shares of Atlantic Richfield Common Stock are available for option under the Qualified Stock Option Plan. This number of shares, and also the option prices and number of shares covered by all options outstanding under each of the plans, are subject to adjustment for future stock dividends, splits, reclassifications and the like.

As of August 31, 1969 options outstanding under the plans were held by the groups indicated below and by each director and each of the three highest paid officers of the Company whose aggregate direct remuneration exceeded $30,000.

Group or Persons	Class of Securities Subject to Options	Number of Shares Subject to Options	Weighted Average Option Price Per Share	Range of Expiration Dates of Options
All optionees	Common	291,742	$62.69	July 15, 1970—March 16, 1974
	$3.00 Preference	325	59.00	December 17, 1969
T. F. Bradshaw	Common	21,000	52.00	December 5, 1970—March 16, 1974
Louis F. Davis	Common	6,344	62.49	July 15, 1970—March 16, 1974
Rollin Eckis	Common	4,000	73.88	June 26, 1972
Louis M. Ream, Jr.	Common	6,100	59.99	December 5, 1970—March 16, 1974
Directors and Officers (including those named above)	Common	93,857	59.68	July 15, 1970—March 16, 1974

Each option outstanding at the time of the merger of Sinclair into Atlantic Richfield for the purchase of shares of Common Stock of Sinclair pursuant to Sinclair's 1959 and 1968 Stock Option Plans was converted into and became an option to purchase the same number of shares of $2.80 Preference Stock of Atlantic Richfield and six-tenths (0.6) of the same number of shares of Common Stock of Atlantic Richfield. Each Sinclair option became exercisable for units of one share of $2.80 Preference Stock and six-tenths (0.6) of a share of Common Stock of the Company at the option price contained in such option for each share of Sinclair Common Stock. As of August 31, 1969 there were options outstanding for the purchase of 120,400 shares of Sinclair Common Stock. These may be exercised for 72,240 shares of the Company's Common Stock and 120,400 shares of its $2.80 Preference Stock. No additional options will be granted under either plan.

All options granted under the 1959 Plan prior to January 1, 1964, were intended to be "restricted stock options" as defined in Section 421 of the Internal Revenue Code. The options granted under the 1968 Plan, and the options granted on April 21, 1964, under the 1959 Plan, were intended to be "qualified stock options" as defined in the Internal Revenue Code.

Pursuant to the 1959 Plan, the option price for each option granted through December 31, 1963, was to be not less than 95% of the fair market value of the shares subject to the option on the date it was granted. Subsequent to December 31, 1963, the option price for options granted under the 1959 Plan was to be not less than 100% of the fair market value of such shares on the date of grant. The option price for each option granted under the 1968 Plan was to be not less than 100% of the fair market value of the shares subject to the option on the date of grant.

See "Market Prices of Stocks" herein for additional information.

PRINCIPAL HOLDER OF ATLANTIC RICHFIELD SECURITIES

At the close of business on August 31, 1969, Cities Service Company held of record and beneficially 4,870,892 shares of Atlantic Richfield Common Stock, representing 11.12% of the outstanding shares of Common Stock, or 8.33% of the outstanding shares of all classes of stock of Atlantic Richfield. This holding represents 8.84% of the voting power of all outstanding Atlantic Richfield stock. Cities acquired these shares of Common Stock upon conversion of the shares of $3.00 Preference Stock it obtained at the time of the merger of Richfield Oil Corporation into Atlantic Richfield. The 2,370,000 shares of Common Stock which Cities Service is offering for its Common Stock under the Exchange Offer are a part of this holding.

On August 6, 1969, Cities sold in a public offering $100,000,000 principal amount of its 6⅝% Debentures Due 1999 with Warrants to purchase 500,000 shares of Atlantic Richfield Common Stock. The Warrants are exercisable on or after October 6, 1969 to and including September 1, 1972. Atlantic Richfield has been advised that Cities has not presently determined how it will divest itself of the approximately 2,000,000 shares of Atlantic Richfield Common Stock held by it which are not subject to purchase upon exercise of the Warrants and which are not being offered under the Exchange Offer or which are not disposed of upon the exercise of the Warrants or under the Exchange Offer.

DESCRIPTION OF CAPITAL STOCK OF ATLANTIC RICHFIELD

Certain statements under this heading are summaries of certain provisions of Atlantic Richfield's Articles of Incorporation as amended and restated March 4, 1969 and do not purport to be complete.

Where provisions of the Articles of Incorporation are referred to, such provisions are incorporated by reference as a part of the statements made, and the statements are qualified in their entirety by such reference. A copy of the Articles is filed with the Securities and Exchange Commission as an exhibit to the statement by which the shares of Common Stock to which this Prospectus relates were registered under the Securities Act of 1933. The term "Preferred Stock" refers to Atlantic Richfield Cumulative Preferred Stock, 3.75% Series B, par value $100 per share. The term "$3.00 Preference Stock" refers to the series of Atlantic Richfield's Preference Stock, par value $1 per share, designated $3.00 Cumulative Convertible Preference Stock. The term "$2.80 Preference Stock" refers to Atlantic Richfield's class of $2.80 Cumulative Convertible Preference Stock, par value $1 per share. The term "Common Stock" refers to Atlantic Richfield's Common Stock, par value $5 per share.

Dividend Rights. Holders of Preferred Stock are entitled to receive cumulative dividends at the annual rate of $3.75 per share, payable quarterly, before cash dividends are paid on the $3.00 Preference Stock, the $2.80 Preference Stock or the Common Stock. Holders of $3.00 Preference Stock and holders of $2.80 Preference Stock are entitled to receive cumulative dividends at the annual rate of $3.00 per share and $2.80 per share, respectively, payable quarterly, before cash dividends are paid on the Common Stock. Shares of $3.00 Preference Stock and shares of $2.80 Preference Stock rank on a parity as to dividends. After provision for payment of full cumulative dividends on the outstanding Preferred, $3.00 Preference and $2.80 Preference Stocks, dividends may be paid on the Common Stock as the Board of Directors may deem advisable, within the limits and from the sources permitted by law, except as stated in the next paragraph.

The Articles of Incorporation contain a provision under which the payment of dividends on the $3.00 Preference, $2.80 Preference and Common Stocks is restricted. The amount free of this restriction was in excess of $799,734,000 as of December 31, 1968, as applied to these stocks. The provision in the Articles on this subject is that Atlantic Richfield will not, without the assent of the holders of a majority of the outstanding shares of Preferred Stock, pay dividends on stock subordinate to the Preferred Stock (other than dividends paid in stock subordinate to the Preferred Stock or dividends paid to comply with law or with a government or court order or decree) except to the extent that the sum of (1) consolidated net income subsequent to December 31, 1946, (2) the amount received by Atlantic Richfield from the issue and sale after December 31, 1946 of stock subordinate to the Preferred Stock and (3) $15,000,000, exceeds the sum of (x) dividends subsequent to December 31, 1946 on shares of stock of Atlantic Richfield (other than dividends paid in stock subordinate to the Preferred Stock or dividends paid to comply with law or with a governmental or court order or decree), and (y) amounts expended by Atlantic Richfield after December 31, 1946 for the purpose of acquiring or redeeming stock subordinate to the Preferred Stock. The $3.00 Preference, $2.80 Preference and Common Stocks are all subordinate to the Preferred Stock within the meaning of the foregoing restriction. For additional restrictions on payment of dividends, see Note 14 to "Notes to Consolidated Financial Statements" herein.

Conversion Rights. Each share of $3.00 Preference Stock is convertible, at the option of the holder, into one and seventy hundredths (1.70) shares of Common Stock of Atlantic Richfield at any time, and each share of $2.80 Preference Stock is convertible, at the option of the holder, into six-tenths (0.6) of a share of Common Stock of Atlantic Richfield at any time. These conversion rates are subject to adjustment as set forth in the Articles of Incorporation.

Voting Rights. The holders of $3.00 Preference Stock are entitled to two votes per share; holders of $2.80 Preference Stock are entitled to one-half vote per share; and holders of Common Stock are entitled to one vote per share. In each case holders are entitled to vote cumulatively for directors. The $3.00 Preference, $2.80 Preference and Common Stocks vote together as one class, except as provided by law and except as to certain matters which require a vote by the holders of $3.00 Preference Stock or the holders of $2.80 Preference Stock as a separate class as set forth below. The holders of Preferred Stock have no voting rights except as provided by law or in the Articles of Incorporation.

The Articles of Incorporation provide that if Atlantic Richfield shall be in default with respect to dividends on the Preferred Stock in an amount equal to six quarterly dividends, the number of directors

of Atlantic Richfield shall be increased by two at the first annual meeting thereafter, and at such meeting and at each subsequent annual meeting until all dividends on the Preferred Stock shall have been paid in full, the holders of Preferred Stock shall have the right, voting as a class, to elect such two additional directors. The Articles contain identical provisions with respect to the $3.00 Preference Stock and the $2.80 Preference Stock.

The Articles provide that Atlantic Richfield shall not without the assent of the holders of two-thirds of the then outstanding shares of $3.00 Preference Stock (a) change any of the terms of the $3.00 Preference Stock adversely to the holders, or (b) authorize any prior ranking stock; and that Atlantic Richfield shall not without the assent of the holders of a majority of the then outstanding shares of $3.00 Preference Stock (1) authorize any additional $3.00 Preference Stock or stock on a parity with it; (2) sell, lease or convey all or substantially all of the property or business of Atlantic Richfield; or (3) merge or consolidate unless the surviving or resulting corporation will have no stock authorized or outstanding ranking prior to or on a parity with the $3.00 Preference Stock except stock of Atlantic Richfield authorized or outstanding immediately before the merger or consolidation or stock of the surviving or resulting corporation issued on conversion or in exchange therefor. The Articles of Incorporation contain identical provisions with respect to the Preferred Stock (excluding item (3)) and with respect to the $2.80 Preference Stock and provide in addition that Atlantic Richfield shall not without the assent of the holders of a majority of the then oustanding shares of Preferred Stock (x) issue any Preferred Stock or permit a subsidiary to issue any of its preferred stock except to Atlantic Richfield or a wholly-owned subsidiary, unless certain conditions as to net earnings and net tangible assets are met; or (y) create or guarantee any funded debt or permit a subsidiary to do so except to Atlantic Richfield or a wholly-owned subsidiary, unless certain conditions with respect to net tangible assets are met.

Redemption Provisions. After 1972 the $3.00 Preference Stock is redeemable at the option of Atlantic Richfield as a whole or in part at any time on at least 30 days notice at $85 per share in 1973, $84 in 1974, $83 in 1975 and $82 thereafter, in each case plus accrued dividends to the redemption date. From March 5, 1974 through March 4, 1975 the $2.80 Preference Stock will be redeemable at the option of Atlantic Richfield as a whole or in part at any time on at least 30 days notice at $80 per share, from March 5, 1975 through March 4, 1976 at $78 per share, from March 5, 1976 through March 4, 1977 at $76 per share, from March 5, 1977 through March 4, 1978 at $73 per share and thereafter at $70 per share. The Preferred Stock is redeemable at the option of Atlantic Richfield as a whole or in part at any time on at least 30 days notice at $101.50 per share plus accrued dividends to the redemption date.

Liquidation Rights. In the event of liquidation of Atlantic Richfield, the holders of Preferred Stock will be entitled to receive, before any payment to holders of $3.00 Preference Stock, $2.80 Preference Stock or Common Stock, $100 per share together with accrued and unpaid dividends, plus a premium of $1.50 per share in the event the liquidation is voluntary. After such payment, holders of $3.00 Preference Stock and holders of $2.80 Preference Stock will be entitled to receive, before any payment to holders of Common Stock, $80 per share and $70 per share, respectively, together in each case with accrued and unpaid dividends. Shares of $3.00 Preference Stock and shares of $2.80 Preference Stock will rank on a parity as to assets of Atlantic Richfield upon its liquidation. Subject to the rights of creditors and the holders of Preferred, $3.00 Preference and $2.80 Preference Stock, the holders of Common Stock are entitled pro rata to the assets of Atlantic Richfield upon its liquidation.

Preemptive Rights. The holders of Preferred, $3.00 Preference, $2.80 Preference and Common Stock do not have preemptive rights.

Liability to Assessment. Shares of Common Stock received in exchange for shares of Cities Common Stock under the Exchange Offer will be fully paid and non-assessable.

FINANCIAL STATEMENTS OF THE COMPANY

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Atlantic Richfield Company

We have examined the consolidated balance sheet of Atlantic Richfield Company and its consolidated subsidiaries as of December 31, 1968, the related statement of income for the five years then ended, and changes in shareholders' equity for the three years then ended all of which give effect to the merger of Sinclair Oil Corporation into Atlantic Richfield Company as described in Note 2 to the financial statements. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Sinclair Oil Corporation and subsidiaries for the five years ended December 31, 1968 (not presented separately herein) or of Richfield Oil Corporation and subsidiaries for the years 1964 and 1965 (not presented separately herein), which statements were examined by other certified public accountants whose reports thereon have been furnished to us. Our opinions expressed herein, insofar as they relate to the aforementioned financial statements of Sinclair Oil Corporation and subsidiaries and Richfield Oil Corporation and subsidiaries, are based upon such reports.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Atlantic Richfield Company and its consolidated subsidiaries at December 31, 1968 and the consolidated results of their operations for the three years then ended in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the information which appears in the statement of income for the years 1964 and 1965 presents fairly the net income and other data shown therein for those years, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

New York, New York
February 25, 1969 (except Note 2 to the
financial statements, which is
dated March 24, 1969)

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
ATLANTIC RICHFIELD COMPANY

In our opinion, the consolidated income account of Richfield Oil Corporation and its subsidiaries (not presented separately herein) presents fairly the results of operations of Richfield Oil Corporation and its subsidiaries for the two years ended December 31, 1965, in conformity with generally accepted accounting principles consistently applied. Our examinations of the financial statements of Richfield Oil Corporation and its subsidiaries for the two years ended December 31, 1965 were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

Los Angeles
February 24, 1966

To the Board of Directors
SINCLAIR OIL CORPORATION

We have examined the consolidated balance sheet of Sinclair Oil Corporation and subsidiaries at December 31, 1968 and the related consolidated statements of income for the five years then ended and retained earnings and other paid-in capital for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above (which are not presented separately herein) present fairly the consolidated financial position of Sinclair Oil Corporation and subsidiaries at December 31, 1968 and the consolidated results of their operations for the periods stated above, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

New York, N. Y.
March 3, 1969

ATLANTIC RICHFIELD COMPANY AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(In thousands of dollars, except par value of capital stocks)

	December 31, 1968	June 30, 1969 (Unaudited)
Current Assets:		
Demand deposits and cash on hand	$ 71,105	$ 95,282
Marketable securities, at cost, approximating market value	69,671	21,067
Accounts and notes receivable, less reserve of $10,304 and $8,485	540,510	587,072
Indebtedness of subsidiaries (Note 1)	1,704	2,667
Inventories (Note 5):		
Crude oil	43,382	49,356
Products	221,282	146,327
Materials and supplies	41,379	37,343
Prepaid expenses and other current assets	28,766	45,801
Total	1,017,799	984,915
Investments and Long Term Receivables, at cost:		
Securities of subsidiaries, less reserve of $697 and $872 (Note 1)	28,580	31,426
Indebtedness of subsidiaries, less reserve of $8,636 and $15,791 (Note 1)	14,778	18,558
Other security investments, less reserve of $1,759 and $1,758	47,554	47,894
Other investments and long term receivables, at cost, less reserve of $72 and $83 (Note 6)	102,054	118,784
Total	192,966	216,662
Fixed Assets (Note 7):		
Property, plant and equipment, at cost	5,313,767	5,365,675
Less reserves for depreciation, depletion and amortization	2,619,209	2,650,466
Net	2,694,558	2,715,209
Intangible arising from "purchase" treatment (Note 3)	131,620	136,181
Deferred Charges:		
Unamortized bond discount and expense	3,735	2,798
Other	22,574	22,116
Total	26,309	24,914
Total Assets	$4,063,252	$4,077,881

See appended notes which are an integral part of this statement.

ATLANTIC RICHFIELD COMPANY AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(In thousands of dollars, except par value of capital stocks)

	December 31, 1968	June 30, 1969 (Unaudited)
Current Liabilities:		
Notes payable	$ 207,493	$ 218,687
Accounts payable	295,315	241,542
Taxes payable including excise tax collected from customers	72,944	75,697
Accrued payroll	11,091	9,826
Accrued interest	4,305	3,262
Long term debt due within one year	24,221	20,093
Total	615,369	569,107
Long Term Debt (Note 8)	979,182	951,002
Deferred Liabilities and Credits:		
Federal and foreign income taxes	5,180	6,029
Revenue deferred on sale of future production	32,654	22,567
Gain deferred on installment sale of leasehold rights (Note 6)	9,715	9,715
Disputed royalty claims	4,222	4,313
Service station divestiture program	3,916	3,718
Other	49,991	41,045
Total	105,678	87,387
Commitments and Contingent Liabilities (Note 10)		
Shareholders' Equity (Note 14):		
Capital stocks (Notes 11, 12 and 13):		
Cumulative preferred stock 3.75% Series B, par $100 (aggregate value in voluntary liquidation $35,728), shares authorized and issued 352,000	35,200	35,200
$3 cumulative convertible preference stock, par $1 (aggregate value in voluntary liquidation $318,384 at December 31, 1968 and $249,176 at June 30, 1969); shares authorized 4,230,849; issued 3,979,806—December 31, 1968 and 3,114,694—June 30, 1969	3,980	3,115
$2.80 cumulative convertible preference stock, par $1 (aggregate value in voluntary liquidation $746,353 at December 31, 1968 and $797,661 at June 30, 1969); shares authorized 15,250,000; issued 10,662,189—December 31, 1968 and 11,395,152—June 30, 1969	10,662	11,395
Common stock, par $5; shares authorized 75,000,000; issued 39,637,206—December 31, 1968 and 41,618,419—June 30, 1969	198,186	208,092
Capital in excess of par value of stock	479,577	522,343
Net income retained for use in the business	1,636,085	1,690,907
	2,363,690	2,471,052
Less cost of 23,598 shares of treasury stock	667	667
Total	2,363,023	2,470,385
Total Liabilities and Shareholders' Equity	$4,063,252	$4,077,881

See appended notes which are an integral part of this statement.

ATLANTIC RICHFIELD COMPANY AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 1966, 1967, 1968 and the Six Months Ended June 30, 1969 (Unaudited)

(000's Omitted)

	$3 Cumulative Convertible Preference Stock		$2.80 Cumulative Convertible Preference Stock		Common Stock		Capital in Excess of Par Value of Stock	Net Income Retained for Use in the Business	Treasury Stock	
	Shares	Amounts	Shares	Amounts	Shares	Amounts			Shares	Amounts
Balance at January 1, 1966, as previously reported:										
Atlantic Richfield Company	8,629	$8,629			23,020	$115,098	$206,775	$ 758,924	436	$11,790
Sinclair Oil Corporation					15,571	77,853	300,961	691,867	346	13,731
Adjustment for Poolings of Interests, Etc. (see Note 2):										
Retirement of Sinclair Treasury shares					(346)	(1,730)	(12,001)		(346)	(13,731)
Retirement of Sinclair shares purchased					(2,528)	(12,639)	(62,373)	(163,920)		
Elimination of Atlantic Richfield stock held by Sinclair									2,884	29,864
Issuance of $2.80 Preference Shares and Common Shares; Retirement of Sinclair Common Shares			12,697	$12,697	(5,078)	(25,392)	12,694	90,537		
Balance Beginning of Year as Restated	8,629	8,629	12,697	12,697	30,639	153,190	446,056	1,377,408	3,320	41,654
Net Income—1966								171,842		
Conversion of Convertible Subordinated Debentures and Stock	1,080	1,080	2	2	3	20	36,628			
Employees Stock Awards and Options Exercised	15	15	123	123	147	734	6,988			
Expenses, new corporate image							(1,688)			
Dividends:										
Atlantic Richfield Company:										
Preferred—$3.75 per share								(1,320)		
Preference—$3.00 per share								(23,684)		
Common — $1.35 per share								(30,568)		
Sinclair Oil Corporation:										
Common — $2.35 per share								(35,805)		
Treasury Stock Transactions*			(103)	(103)	(62)	(310)	(5,720)		(6)	(178)
Balance at December 31, 1966	9,724	9,724	12,719	12,719	30,727	153,634	482,264	1,457,873	3,314	41,476
Net Income—1967								190,817		
Acquisition of a minor subsidiary					169	845	4,077	(4,279)		
Conversion of Convertible Subordinated Debentures and Stock	(92)	(92)	10	10	183	916	310			
Employee Stock Awards and Options Exercised	6	6	90	90	114	574	5,366			

Exchange of Atlantic Richfield $3.00 Preference Stock for Sinclair Common Stock (by Sinclair Stockholders)			(2,884)	(2,884)	(1,730)	(8,650)	(18,330)		(2,884)	(29,864)
Dividends:										
Atlantic Richfield Company:										
Preferred—$3.75 per share								(1,320)		
Preference—$3.00 per share								(27,833)		
Common—$1.48 per share								(34,327)		
Sinclair Oil Corporation:										
Common—$2.50 per share								(32,817)		
Treasury Stock Transactions*							(3,897)	(6,773)	(406)	(10,945)
Balance at December 31, 1967	9,638	$9,638	9,935	9,935	29,463	147,319	469,790	1,541,341	24	667
Net Income—1968								199,560		
Conversion of Convertible Subordinated Debentures and Stock	(5,662)	(5,662)	705	705	10,070	50,348	7,319			
Employee Stock Awards and Options Exercised	4	4	62	62	128	639	5,422			
Dividends:										
Atlantic Richfield Company:										
Preferred—$3.75 per share								(1,320)		
Preference—$3.00 per share								(23,273)		
Common—$1.68 per share								(45,192)		
Sinclair Oil Corporation:										
Common—$2.80 per share								(35,031)		
Treasury Stock Transactions*			(40)	(40)	(24)	(120)	(2,954)			
Balance at December 31, 1968	3,980	3,980	10,662	10,662	39,637	198,186	479,577	1,636,085	24	667
Net Income—6 months—1969								110,958		
Conversion of Convertible Subordinated Debentures and Stock	(870)	(870)	703	703	1,913	9,564	43,284			
Employee Stock Awards and Options Exercised	5	5	30	30	68	342	3,665			
Dividends:										
Atlantic Richfield Company:										
Preferred—$1.87 per share								(660)		
$3.00 Preference—$1.50 per share								(5,622)		
$2.80 Preference—$.70 per share								(7,297)		
Common—$.90 per share								(33,212)		
Sinclair Oil Corporation:										
Common—$.70 per share								(9,345)		
Expenses incurred in connection with the Atlantic Richfield/Sinclair merger							(4,183)			
Balance at June 30, 1969	3,115	$3,115	11,395	$11,395	41,618	$208,092	$522,343	$1,690,907	24	$ 667

There were no changes in the 3.75% cumulative preferred stock during the period.

* Transactions in Sinclair treasury stock have been accounted for as if they had been converted into Atlantic Richfield shares and are reflected in the appropriate columns.

See appended notes which are an integral part of this statement.

ATLANTIC RICHFIELD COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation:

All subsidiaries have been consolidated including 50% of the accounts of the Sinclair-Koppers Company, a partnership, except two Brazilian subsidiaries which are carried at cost, and certain minor subsidiaries which in the aggregate would not constitute a significant subsidiary. These minor subsidiaries along with other 50% owned companies, effective January 1, 1967, are generally stated at equity and no significant difference exists between the carrying value of these investments as shown in accompanying balance sheet and equity in the net assets of such unconsolidated subsidiaries and 50% owned companies as reflected in their financial statements. The change to an equity basis for subsidiaries (other than the Brazilian subsidiaries) had no material effect on operating results.

At December 31, 1968, Atlantic Richfield's equity in the net assets of consolidated subsidiaries exceeded the cost of its investments in such subsidiaries by $187,788,000 (no significant change at June 30, 1969), which amount is principally included in consolidated net income retained in the business.

On December 31, 1968 and June 30, 1969 the equity in the Brazilian subsidiaries, based upon the latest available information, exceeded the amount at which the investment is carried in the balance sheet by $13,457,000 and $14,197,000, respectively. The difference between the dividends from the Brazilian subsidiaries, which are included in the accompanying income statement, and their net income was not significant in relation to consolidated net income for the years 1964 through 1968 and the six month period ending June 30, 1969.

2. Poolings of Interests:

Effective March 4, 1969, in an exchange of stock, Sinclair Oil Corporation was merged into the Company. Previously during December 1968, the Company had acquired for cash 19.165% of the outstanding common shares of Sinclair. See Note 3 regarding the forced disposition of certain assets of the merged company as of March 4, 1969. For accounting purposes the portion of this overall transaction represented by the cash purchase of shares (which correlates with the sale of certain assets) has been treated as a purchase, and the portion thereof represented by the exchange of stock (which represents the continuing portion of the Sinclair operations retained by the Company) has been treated as a "pooling of interests". Accordingly, the accompanying financial statements include the appropriate portion of the accounts of the merged companies reclassified to Atlantic Richfield captions and groupings.

The merger, in 1966, of Richfield Oil Corporation into Atlantic Richfield was treated as a "pooling of interests". All financial statements included herein reflect the accounts of the merged companies reclassified to Atlantic Richfield captions and groupings.

3. British Petroleum Sale:

On March 4, 1969, the United States District Court for the Southern District of New York permitted the merger of Sinclair into Atlantic Richfield to proceed on the stipulation that certain assets be sold simultaneously with completion of the merger.

Previously, the Company and BP Oil Corporation ("BP") a wholly owned subsidiary of The British Petroleum Company, Ltd. had entered into an agreement providing for the sale of certain assets to BP for $400,000,000 and interest at 7 percent with the first installment of both principal and interest being due six months after the first shipment of commercial quantities of crude oil from the North Slope area of Alaska for BP's account but not later than December 31, 1972.

Subsequently, a wholly-owned subsidiary of The British Petroleum Company Limited, British Petroleum (B.P. Overzee) N.V. ("Overzee") and the Standard Oil Company ("Sohio"), entered into an Agreement pursuant to which the parent of BP will be acquired by Sohio in exchange for a special class of its stock. Upon such acquisition Overzee will become obligated to pay the purchase price of the assets sold to BP on substantially similar terms, except that $120,000,000 of the purchase price will be paid on January 2, 1970. Overzee's obligation will be guaranteed by The British Petroleum Company Limited and will be secured by a pledge of the Sohio Special Stock, or of collateral having a value of not less than 125% of said obligation. The British Petroleum Company Limited will also pay to Atlantic Richfield Company a fee equal to 1/7th of the interest payable by Overzec with respect to the period after the acquisition of BP by Sohio.

The extinguishment of the Intangible arising from "purchase" treatment (which represents the excess of the cash purchase price of the Sinclair shares acquired over the carrying value of the related portion of Sinclair's net assets acquired) is not expected to have a material adverse effect on the continuing operations of Atlantic Richfield because such excess is primarily attributable to the assets sold to BP and will reduce any gain in that connection. Any gain, net of related income taxes, resulting from this sale will be reflected as an extraordinary item of income.

4. Foreign Assets and Liabilities:

At December 31, 1968 and June 30, 1969 the consolidated balance sheet includes foreign net assets outside the United States and Canada (located principally in Venezuela and Iran) of $231,446,000 and $224,965,000, respectively, of which $18,485,000 and $24,187,000, respectively, represent net current assets. Foreign source income (excluding Canada), included in consolidation, is not significant for the years 1964 through 1968 and the six month period ending June 30, 1969.

Current assets and liabilities recorded in foreign currencies have been translated into dollars at appropriate exchange rates. Noncurrent assets and liabilities recorded in foreign currencies have, in general, been translated at the exchange rates prevailing when respectively acquired or incurred. The income accounts recorded in foreign currencies have been translated into dollars monthly at current exchange rates with the exception of depreciation, which has been translated at the rates applicable to fixed assets. The unrealized gains or losses resulting from the translation of the net current assets of the consolidated companies into dollars are included in consolidated net income for the years 1964 through 1968 and the six month periods ending June 30, 1968 and 1969 and are not significant.

5. Inventories:

Inventories of crude oil and products are stated at last-in, first-out cost which, in the aggregate, is lower than market at December 31, 1968 and June 30, 1969. Inventories of materials and supplies are stated at or below cost.

The inventory amounts used in the computation of cost and operating expenses were as follows (expressed in thousands of dollars):

December 31					June 30,
1964	1965	1966	1967	1968	1969
$175,149	$184,571	$196,727	$190,882	$212,064	$196,198

6. Ship Shoal Sale:

The income statement includes in other revenues approximately $1,000,000 gain on the installment sale of leasehold rights in the Ship Shoal area of offshore Louisiana for each of the years 1964 through 1967. The consolidated balance sheet at December 31, 1968 and June 30, 1969 includes $10,847,000 and $9,596,000, respectively, notes receivable from this sale and $9,715,000 deferred gain at December 31, 1968 and June 30, 1969 on the sale of these leasehold rights.

Proceedings are now pending before the Federal Power Commission to determine the appropriate regulatory status of the Ship Shoal transaction. The regulatory method ultimately determined may involve reduction in, or return of, the leasehold purchase price. Final disposition may not occur until 1970 or later. No effect on income is anticipated.

7. Property, Plant and Equipment:

Property, plant and equipment and the related reserves for depreciation, depletion and amortization are as follows (thousands of dollars):

	December 31, 1968	June 30, 1969
Producing	$2,869,869	$2,894,063
Pipe Lines	331,673	335,882
Marine	63,940	64,406
Manufacturing	1,190,124	1,208,990
Marketing	784,968	803,093
Other	73,193	59,241
Total	5,313,767	5,365,675
Reserves for depreciation, depletion and amortization	2,619,209	2,650,466
Net	$2,694,558	$2,715,209

Undeveloped leasehold costs are capitalized and amortized on a composite basis at rates based on past experience and average lease life. Costs of leases surrendered or otherwise disposed of are charged to the accumulated amortization reserve.

Other fixed assets are written off over the estimated life of the assets on either a straight-line or unit method. Rates under the unit method are based upon Atlantic Richfield estimates of recoverable reserves. Rates under the straight-line method are based upon the expected lives of groups of, or individual, plant items.

Upon retirement of facilities depreciated on an individual plant item basis, residual cost less salvage is reflected as a charge (or credit) against current income. Upon retirement of facilities depreciated on a group basis, unless extraordinary in nature or amount, cost less salvage is charged against the reserve.

Intangible development costs applicable to productive wells are capitalized and amortized on the unit of production method, based upon Atlantic Richfield estimates of recoverable reserves.

Costs incidental to the drilling of development wells are initially capitalized but charged to expense if the hole is determined to be dry. Costs of drilling exploratory wells are charged to expense as incurred but capitalized and credited to expense if the well proves to be productive. Non-productive exploratory costs, including geological and geophysical costs and annual delay rentals are charged to expense as incurred.

Somewhat different methods were followed by Sinclair in the past but they did not produce a significantly different effect on net income, based on studies completed to date.

Maintenance and repairs are charged to expense, except that occasional substantial renewals, which prolong the life of the facility beyond the date previously contemplated, are charged to the reserve for depreciation; betterments are capitalized as plant additions.

8. Long Term Debt:

Long term debt at June 30, 1969 (expressed in thousands of dollars) comprises:

	June 30, 1969
Atlantic Richfield Company:	
Twenty-five year 2.85% debentures, due October 1, 1974—$2,500 annual sinking fund requirement	$ 12,500
Twenty-five year 3¼% debentures, due January 15, 1979—$1,375 annual sinking fund requirement	38,500
Thirty year 3.85% debentures, due June 1, 1983—$500 annual sinking fund requirement until 1974; $3,000 annually thereafter	29,000
4⅜% convertible subordinated debentures, due April 15, 1983—$3,000 annual sinking fund requirement has been satisfied by debenture conversion to maturity	609
Thirty year 5⅝% debentures, due May 15, 1997—$4,300 annual sinking fund requirement commencing May 15, 1975, with a final payment of $5,400 at maturity	100,000
4½% notes payable, due in semi-annual installments of $4,687 to February 15, 1975	46,875
2⅞% debentures, due $2,600 annually 1970 and 1971 and $2,750 in 1972	7,950
3% debentures, due $10,000 annually 1970 to 1974	50,000
4.60% debentures, due $3,000 annually 1970 to 1974; $8,000 annually 1975 to 1987 and $25,000 in 1988	144,000
4⅜% convertible subordinated debentures, due $5,000 annually 1979 to 1985 and $19,269 in 1986	54,269
Other notes payable, due in varying amounts through 1984, at various interest rates	433,222
Atlantic Richfield International Finance Corporation:	
5¾% guaranteed notes due May 1, 1972	15,000
Nuclear Materials and Equipment Corporation:	
Notes payable, due in varying amounts through 1975, at various interest rates	877
Arco Pipe Line Company:	
3⅜% debentures, due $3,400 annually 1970 to 1974 and $1,200 in 1975	18,200
Total	$951,002

Maturities subsequent to June 30, 1969 are as follows (expressed in thousands of dollars):

Year Ended June 30	
1970	$20,093
1971	37,032
1972	50,888
1973	32,109
1974	31,954

Under the indenture relating to the twenty-five year 3¼% debentures, Atlantic Richfield is required to pay into a sinking fund before January 15 of each of the years 1969 to 1978, inclusive, an amount sufficient to retire $1,375,000 principal amount of debentures at designated prices (expressed in percentages of the principal amount), the price being 100.40 for 1968 through 1970, and decreasing .20 for each three years thereafter until 1974 when the price is 100 and so remains during the period of the sinking fund. Sinking fund payments may be made in cash or in debentures purchased by Atlantic Richfield. At June 30, 1969, Atlantic Richfield had purchased and was holding sufficient debentures to make the sinking fund payment due before January 15, 1970.

The 4⅜% convertible subordinated debentures due 1983 are convertible into $3 cumulative convertible preference stock at the following conversion prices: $37.50 on or before April 15, 1973; $40 on or before April 15, 1978 and $42.50 on or before April 15, 1983.

The 4⅜% convertible subordinated debentures due 1986 are convertible into $2.80 cumulative convertible preference stock and common stock at a conversion price of $75 through December 1, 1971 and thereafter at a price which increases $5 each successive five year period through December 1, 1981. At December 31, 1968 and June 30, 1969 conversion of all outstanding debentures would have required the issuance of 1,432,428 and 723,592 shares, respectively, of $2.80 preference stock and 859,457 and 434,155 shares, respectively, of common stock.

9. Pension Plan:

Atlantic Richfield has a pension plan covering substantially all of its employees. The Plan provides for payment by the Company and its employees into a trust fund which is kept apart from Company funds.

Sinclair's retirement program consists of a contributory retirement plan covering substantially all U. S. and Canadian employees and certain employees in other countries.

The retirement expenses for the combined plans, amounted to:

Year Ended December 31	
1966	$13,285,000
1967	12,484,000
1968	13,010,000
Six months Ended June 30, 1969	7,422,000

A preliminary actuarial review indicates there will be no unfunded costs of prior service benefits after amending and combining the Plans.

10. Commitments and Contingent Liabilities:

Minimum annual rentals for the next 20 years under long term leases covering production (except oil and gas leases), transportation, office and storage facilities, average:

	Per Year
1970 through 1979	$18,952,000
1980 through 1989	6,014,000

Rentals received for service station properties are expected to approximately offset rentals paid on such properties. Rentals paid for such service station properties during 1968 and the six months ended June 30, 1969 were $35,175,000 and $13,826,000, respectively. In general, options and obligations to purchase such properties operate under certain conditions.

A contingent liability exists in an indeterminate amount for suits and claims pending. In the opinion of Atlantic Richfield the ultimate liability of Atlantic Richfield and its subsidiaries for such pending suits and claims will not be material.

11. Capital Stock:

On July 15, 1968, a two-for-one split of common stock was approved by the shareholders of the Company. All data relative to common stock and per share amounts in the financial statements and notes thereto have been adjusted to give effect to this transaction.

At December 31, 1968 and June 30, 1969 shares of the Company's authorized and unissued preference stock and common stock were reserved as follows:

	December 31, 1968	June 30, 1969
$3 Cumulative Convertible Preference Stock:		
Conversion of 4⅜% convertible subordinated debentures	18,952	18,208
Stock option plans	5,500	400
	24,452	18,608
$2.80 Cumulative Convertible Preference Stock:		
Conversion of 4⅜% convertible subordinated debentures	1,432,428	724,158
Stock option plans	173,450	144,150
	1,605,878	868,308
Common Stock:		
Conversion of 4⅜% convertible subordinated debentures	859,457	434,494
Conversion of $3 cumulative convertible preference stock (includes above conversion and stock options)	6,807,238	5,326,613
Conversion of $2.80 cumulative convertible preference stock (includes above conversion and stock options)	7,360,840	7,357,084
Stock option plans	667,037	618,909
Warrants to be issued to Gulf & Western	618,360	618,360
Compensation Plan	2,728	1,586
	16,315,660	14,357,046

The 3.75% Series B preferred stock is redeemable at any time in whole or in part, at the option of the Board of Directors, and is entitled upon redemption or voluntary liquidation to $101.50 a share.

The 4⅜% convertible subordinated debentures due 1983 are convertible into $3 cumulative convertible preference stock at $37.50 a share until April 15, 1973, and thereafter at increasing prices. The $3 cumulative convertible preference stock is convertible into 1.70 shares of common stock.

The 4⅜% convertible subordinated debentures due 1986 are convertible into $2.80 cumulative convertible preference stock and common stock at $75.00 until December 1, 1971, and thereafter at increasing prices. The $2.80 cumulative convertible preference stock is convertible into 0.6 shares of common stock.

As of December 31, 1968, Atlantic Richfield Company and Gulf & Western Industries, Inc. agreed that Gulf & Western would give Atlantic Richfield an option to purchase, between August 1, and September 3, 1969, all shares of common stock of Sinclair Oil Corporation owned or to be acquired by Gulf & Western (up to 618,360 shares) at a price of $130 per share. In consideration of the option, Atlantic Richfield agreed to issue to Gulf & Western warrants to purchase one share of common stock of Atlantic Richfield for each share of Sinclair under option, the warrant to be exercisable at $125 per share and to terminate on December 31, 1976. The warrant is not exercisable or transferable within the first two years. Exercise of the warrants by Gulf & Western would not have a dilutive effect on earnings per share. On August 27, 1969 Atlantic Richfield agreed to cancel the option in return for $2,012,000.

12. Incentive and Qualified Stock Option Plans:

A. Atlantic Richfield Company (excluding Sinclair Oil Corporation):

An Incentive Stock Option Plan, approved by the shareholders on May 6, 1952, and amended by the shareholders on May 2, 1961, provided that the option price shall be fixed by a committee of the Board of Directors, but shall not be less than 95% of the market value of the stock at date of grant. Options are exercisable 18 months after grant and expire within seven years from date of grant. No further options will be granted under this Plan.

A Qualified Stock Option Plan, approved by the shareholders on May 4, 1965, provides also that the option price shall be fixed by a committee of the Board of Directors, but shall not be less than 100% of the market value of the stock at date of grant. Generally the right to exercise options granted under this Plan accrues as to portions of the shares periodically during the terms of the options and the options expire within five years from date of grant. In 1968 and 1969 options were granted for 94,540 and 99,225 shares, respectively, under the Qualified Stock Option Plan.

Atlantic Richfield assumed the options outstanding under two stock option plans of Nuclear Materials and Equipment Corporation in connection with the acquisition of substantially all of the assets of that company. All outstanding options became options to purchase Atlantic Richfield common stock. No additional options will be granted under either of the plans.

Information with respect to options granted under the Plans discussed above is as follows:

	Number of Shares	Option Price		Market Value	
		Per Share	Total	Per Share	Total
Shares under option:					
December 31, 1968	259,397	$23.13–$59.61	$11,274,300	$24.25–$ 50.50(A)	$11,440,700
June 30, 1969	256,994	$23.63–$97.25	$18,805,500	$24.75–$ 97.13(A)	$18,701,400
Options which became exercisable during:					
1966	57,326	$15.63–$37.63	$ 1,586,450	$39.35–$ 45.06(B)	$ 2,399,669
1967	65,560	$23.13–$58.21	$ 2,343,000	$42.50–$ 52.38(B)	$ 3,069,000
1968	94,839	$25.00–$59.61	$ 3,986,300	$50.19–$122.00(B)	$ 7,139,200
Six Months Ended June 30, 1969	57,719	$38.24–$97.25	$ 4,105,300	$97.13–$107.25(B)	$ 5,743,200
Options exercised during:					
1966	72,964	$15.63–$37.63	$ 1,736,327	$34.06–$ 46.13(C)	$ 2,942,477
1967	60,712	$15.63–$47.98	$ 1,665,000	$41.56–$ 54.88(C)	$ 2,883,000
1968	83,669	$23.13–$59.61	$ 2,644,100	$48.13–$128.50(C)	$ 6,854,800
Six Months Ended June 30, 1969	47,960	$23.13–$97.25	$ 1,857,100	$94.88–$132.00(C)	$ 5,311,300

(A) At the dates options were granted.
(B) At the dates options became exercisable.
(C) At the dates options were exercised.

No charges are made to income in connection with the Plans.

Shares of $3 Cumulative Convertible Preference Stock were reserved for sale to executives and key employees under the Richfield Oil Corporation Stock Option Plan. This Plan, approved by the shareholders on April 24, 1958 and amended by the Board of Directors April 16, 1964, provides that the option price shall be fixed by a committee of the Board of Directors, but shall not be less than 100% of the market value of this stock at the date of grant. Options are exercisable 18 months after grant and expire within seven years if granted prior to December 31, 1963 or within five years if granted thereafter. Options were last granted under this Plan during 1964 and no additional options will be granted.

Information with respect to options granted under this Plan is as follows:

	Number of Shares	Option Price		Market Value	
		Per Share	Total	Per Share	Total
Shares under option:					
December 31, 1968	5,500	$48.00–$59.00	$291,500	$ 40.00–$ 59.00(A)	$ 291,500
June 30, 1969	375	$59.00	$ 22,100	$ 59.00(A)	$ 22,100
Options which became exercisable during:					
1966	5,000	$59.00	$295,000	$ 75.75(B)	$ 378,750
1967	—				
1968	—				
Six Months Ended June 30, 1969	—				
Options exercised during:					
1966	15,675	$36.50–$59.00	$723,213	$ 70.88–$ 80.38(C)	$1,179,763
1967	6,700	$36.50–$59.00	$302,000	$ 73.00–$ 90.25(C)	$ 535,000
1968	4,200	$48.00–$59.00	$206,600	$ 90.50–$178.00(C)	$ 430,800
Six Months Ended June 30, 1969	5,125	$48.00–$59.00	$290,300	$184.25–$194.00(C)	$ 957,600

(A) At the dates options were granted.
(B) At the dates options became exercisable.
(C) At the dates options were exercised.

No charges are made to income in connection with the Plan.

Atlantic Richfield also assumed the options outstanding of the two stock option plans of the Sinclair Oil Corporation in connection with the merger of that Company.

B. Sinclair Oil Corporation:

By terms of the merger which was consummated on March 4, 1969 each share of Sinclair common stock subject to Sinclair's stock option plans were converted into the equivalent of one share of Atlantic's $2.80 preference stock and .6 share of Atlantic common stock.

Under Sinclair's Stock Option Plan, As Amended, options were authorized to be granted to key employees to purchase a maximum of 750,000 shares of Sinclair's common stock. No options were authorized to be granted under this Plan after May 20, 1964. Options granted in 1961 were exercisable as to not more than one-third of the total number of shares covered thereby after the expiration of eighteen months from the date of grant and cumulatively (with certain exceptions) as to not more than an additional one-third of the total number of shares at the end of each succeeding twelve month period. These options expire ten years from the date of grant or earlier in certain contingencies. Options granted in 1964 became exercisable on October 21, 1964 and expire five years from the date of grant or earlier in certain contingencies.

Under Sinclair's Qualified Stock Option Plan 1968, authorized by the shareholders in May 1968, options were authorized to be granted to key employees to purchase a maximum of 250,000 (the equivalent of 250,000 shares of Atlantic $2.80 preference stock and 150,000 shares of Atlantic common stock) shares of Sinclair common stock. The options, which have a term of five years, shall become exercisable to the extent of 25% six months from date of grant and 25% each succeeding six month period thereafter and shall be at a price not less than the market value on date of grant.

Options outstanding under this Plan, all of which were exercisable, were as follows:

Dates Options Granted	Option Price Per Share	Market Value Per Share On Date Granted	Class of Atlantic Richfield Stock	Shares Subject to Outstanding Options: December 31, 1968	Shares Subject to Outstanding Options: June 30, 1969
July 19, 1961	$40.00	$40.56	$2.80 Preference	10,100	6,300
			Common	6,060	3,780
April 21, 1964	$46.25	$46.25	$2.80 Preference	19,600	—
			Common	11,760	—
June 18, 1968	$81.63	$81.63	$2.80 Preference	—	131,900
			Common	—	79,140
Total			$2.80 Preference	29,700	138,200
			Common	17,820	82,920
Total market value on dates of grant				$1,316,156	$11,022,525
Total option price				$1,310,500	$11,018,997

Options which became exercisable and those exercised during the three years ended December 31, 1968 and the six months ended June 30, 1969 are summarized below:

	Number of Shares	Option Price: Per Share	Option Price: Total	Market Value: Per Share	Market Value: Total
Exercisable:					
1966	None				
1967	None				
1968	None				
Six Months Ended June 30, 1969—					
$2.80 Preference	77,700	$81.63	$6,342,263	$76.25–$117.00	$10,301,413
Common	46,620				
Exercised:					
1966—					
$2.80 Preference	123,000	$40.00 and $46.25	$5,400,313	$55.87–$ 69.00	$7,729,581
Common	73,800				
1967—					
$2.80 Preference	90,450	$40.00 and $46.25	$4,071,125	$62.25–$ 80.50	$6,606,631
Common	54,270				
1968—					
$2.80 Preference	62,100	$40.00 and $46.25	$2,792,438	$72.75–$138.13	$5,532,419
Common	37,260				
Period—Pre-Merger—January 1 to March 4, 1969—					
$2.80 Preference	14,650	$40.00 – $81.63	$ 709,500	$94.25–$127.00	$1,634,401
Common	8,790				
Period—Post-Merger—March 5 to June 30, 1969—					
$2.80 Preference	19,600	$40.00 – $81.63	$1,234,686	$64.50–$ 85.50	$1,470,675
Common	11,760			$94.75–$130.25	$1,336,801

Unissued or reacquired shares may be delivered on the exercise of options. The excess of proceeds received over the par value of shares issued or over the cost of reacquired shares delivered is credited to other paid-in capital and no charge against income is made.

13. Incentive Compensation Plans:

Atlantic Richfield Company's Incentive Compensation Plan was adopted in 1967. The Plan provides that each year, up to an aggregate amount of 4% of adjusted net income (as defined in the Plan) which exceeds 6% of employed capital (as defined in the Plan) may be credited to the Plan for purposes of making awards to directors, officers and key employees. Awards may be in cash (in a lump sum or on an installment basis), in the company's common stock (restricted or unrestricted), or partly in each. Awards in stock are valued at the prevailing market price at the time awards are made and shall be paid in full at such time. Restricted stock so awarded is subject to transferability for such periods as the company in its discretion may determine. Under certain conditions (1) restricted stock awards shall be forfeited and the restricted stock shall be retransferred to the company without consideration and held by the company as treasury stock; (2) unpaid cash portions of awards shall be forfeited and restored to the income of the company in the year of forfeiture.

Sinclair Oil Corporation's Incentive Compensation Plan was approved by the shareholders in 1966. No additional awards will be made under this Plan.

Amounts provided during the year ended December 31, 1968 and six months ended June 30, 1969 were $1,020,000 and $402,000, respectively. Awards in stock amounted to 7,272 shares—December 31, 1968 and 3,642 shares—June 30, 1969 at an aggregate value of $408,000 and $395,000, respectively.

14. Dividend Restrictions:

In liquidation, the holders of the 3.75% cumulative preferred stock, the $3 cumulative convertible preference stock and the $2.80 cumulative convertible preference stock would have a preferential right to receive at December 31, 1968 $528,000, $314,404,000, and $735,691,000, respectively, and at June 30, 1969 $528,000, $246,061,000 and $786,265,000, respectively, in excess of the aggregate par value of these shares. Atlantic Richfield Company is advised that under the law of Pennsylvania, in which it is incorporated, no dividend may be paid which would reduce its net assets below the aggregate preferential amount to which the holders of the preferred and preference stock would be entitled in voluntary liquidation. At December 31, 1968 and June 30, 1969, the net assets, including Atlantic Richfield's equity in the net assets of consolidated subsidiaries, exceed this aggregate preferential amount by approximately $1,262,558,000 and $1,387,821,000, respectively.

By reason of the restrictions of the so-called Elkins Act decree, limiting the payment of dividends by pipe line subsidiaries to shipper-owners to 7% of the calculated Interstate Commerce Commission carrier property valuations, net income retained in the business of Atlantic Richfield's pipe line subsidiaries consolidated was so restricted in the approximate amount of $22,608,000 at December 31, 1968 and $24,411,000 at June 30, 1969.

15. Supplementary Profit and Loss Information:

Item	1966	1967	1968	Six Months Ended June 30, 1969
	(Thousands of dollars)			
Taxes, other than income taxes				
Excise taxes	$405,660	$437,484	$454,723	$226,470
Property	31,391	34,432	37,147	22,355
Social Security	8,535	8,612	9,913	11,571
Capital stock and franchise	1,625	1,868	2,067	1,448
Production and gathering	25,729	29,234	30,510	10,014
Import duties	6,746	6,600	6,752	4,064
Miscellaneous	6,673	6,191	7,056	(1,662)
Total per consolidated income statement	$486,359	$524,421	$548,168	$274,260
Maintenance (Note A)	$ 94,768	$ 99,211	$111,680	$ 62,340
Rents (Note A)	69,684	76,165	82,524	46,152
Management service contract fees	not material			
Royalties	not material			

Note A—Maintenance and Rents shown are included in Costs and Operating Expenses except for the amounts shown below which are included in Selling, Delivery, General and Administrative Expenses:

	1966	1967	1968	Six Months Ended June 30, 1969
Maintenance	$ 17,902	$ 19,001	$ 22,544	$ 19,891
Rent	40,070	41,745	45,807	21,728

CITIES SERVICE COMPANY

Cities Service Company (hereinafter sometimes called the "Company") is a Delaware corporation incorporated on September 2, 1910. It maintains its principal executive offices at Sixty Wall Street, New York, N. Y. 10005. Cities Service Company is primarily a holding company owning securities of companies which operate in the natural resources fields. The primary areas are in energy and chemicals, including petroleum and natural gas, natural gas transmission, carbon black, petrochemicals, plastics, copper, copper products, plant foods and graphic arts materials. A more detailed description of the business and properties of Cities Service* is set forth herein under the caption "Business and Property of Cities Service".

BUSINESS AND PROPERTY OF CITIES SERVICE

Line of Business Contribution

A summary of the results of operations for each of Cities Service's principal lines of business for the periods indicated is shown in the following table. In the opinion of Cities Service it is appropriate to state the contribution to income before interest expense, Federal and foreign income taxes and extraordinary items. Interest expense in the aggregate amounted to $16.4 million in 1967 and $20.4 million in 1968, and Federal and foreign income taxes in the aggregate amounted to $38.9 million in 1967 and $23.8 million in 1968.

	Year ended December 31 (thousands of dollars)			
	Sales and operating income		Contribution to income before interest expense, Federal and foreign income taxes and extraordinary items	
	1967	1968	1967	1968
Petroleum	$ 890,400(a)	917,900(a)	97,300	89,200
Natural gas transmission	118,200	123,000	25,200	25,700
Petrochemicals	161,400	178,900	17,000	16,100
Chemicals and metals	160,600	169,400	27,000	15,700
Other(b)	44,200	50,500	16,600	18,800
Total	$1,374,800	1,439,700	183,100	165,500

(a) Includes sales of purchased crude oil: 1967—$261.2 million; 1968—$293.4 million.

(b) Includes lines of business which contribute substantially less than 10 percent of consolidated sales and operating income or to income and also includes general corporate income and expenses including dividends received on Atlantic Richfield Stock.

Capital and Exploration Expenditures and Retirements

A summary of Cities Service's capital expenditures, plant retirements and other dispositions and exploration expenditures during the periods indicated, follows (in thousands of dollars):

	Year ended December 31					Six months ended June 30	
	1964	1965	1966	1967	1968	1968	1969
Gross additions							
Petroleum	$ 87,493	115,606	159,424	166,257	147,862	64,409	56,493
Natural gas transmission	7,099	16,800	11,204	13,965	24,436	14,295	7,235
Petrochemicals	4,958	7,292	32,731	24,247	16,987	7,375	11,626
Chemicals and metals	7,366	14,952	26,746	29,426	12,262	6,992	6,199
Other operations	1,298	2,285	4,913	6,671	11,304	3,860	3,874
Total plant additions	108,214	156,935	235,018	240,566	212,851	96,931	85,427
Investments	2,170	11,515	6,992	13,159	2,836	3,212	(634)
Total gross additions	$110,384	168,450	242,010	253,725	215,687	100,143	84,793
Gross plant retirements and other dispositions	$117,127	59,952	119,160	126,585	81,377	28,390	39,592
Exploration expenditures charged to income	$ 15,533	17,576	22,456	22,857	22,920	9,093	10,445

* As hereinafter used, except as otherwise indicated by the text, the term "Cities Service" means Cities Service Company and all subsidiaries consolidated for the purposes of the financial statements of Cities Service Company.

Petroleum

Exploration—Production

Cities Service produced 122,800 net barrels of crude oil per day and 990,300 net Mcf of natural gas per day during the first six months of 1969.

The Company maintains an active and extensive program in the search for, and development of, petroleum reserves. During the past five years and six months a total of 891 net interest producing oil and gas wells were completed. Secondary recovery projects continue to play an important role in producing operations. Cities Service is participating in 287 such projects currently producing 38,500 barrels of crude oil per day which would not have been recovered under primary methods.

Company interest in gross oil and condensate production from Offshore-Louisiana averaged 24,250 barrels per day during the first half of 1969 compared to 18,300 barrels per day in the same period of 1968. Company interest in gas production offshore has averaged 165.6 million cubic feet per day during the first half of 1969. Most of this offshore production resulted from the Company's 25% interest in a four-party group, the CAGC combine, which has 14 rigs operating in the Offshore-Louisiana area. Cities Service paid a total of $5.7 million in Federal drainage sales in November, 1968 and January, 1969 and acquired interests in seven tracts totaling 16,250 acres.

Another four-party group in which the Company has a 25% interest drilled a test well early in 1969 on the 1968 acquired 5,760 acre Federal Tract in the South Brazos area of Offshore-Texas. A second well is scheduled later this year to further evaluate this tract.

Development of the Company's 2,000 acre 37.5% owned Santa Barbara Channel, California tract, was initiated during 1968. Drilling operations were resumed early in April after a shut-down period ordered by Federal agencies following the blow-out of another group's well early in 1969. The Company's share of production currently averages 10,000 barrels per day.

In the Gulf of Alaska, Cities Service has initiated an exploration program in preparation for the Federal lease sale scheduled for 1970. The Company has participated in both seismic and oceanographic programs.

On the Alaskan North Slope Cities Service has priority filings on 146,800 acres in the foothills area some 80 miles south of Prudhoe Bay. There is a temporary moratorium on the issuance of Federal leases by the Department of the Interior due to native claims. Cities Service has acquired 99,600 acres of Federal leases in this same general area from an Alaskan independent and has conducted geophysical surveys.

Cities Service participated with partners in successful bids on 19 tracts involving 48,561 acres in the State of Alaska North Slope sale on September 10, 1969. These tracts involved a total expenditure of $36,172,036 and a net expenditure by Cities Service of $7,583,291 due to the Company's varied interest in the tracts. Four tracts (numbers 49, 50, 51 and 52) are subject to an option by another company to acquire a 15% interest in these tracts. If the option is exercised Cities interest and cost in the four tracts will be reduced proportionately.

In Argentina, Cities Service has a 63⅓% interest in a development contract expiring in 1987 covering a 118,000-acre block. Total production averaged 39,000 barrels per day during the first half of 1969. By December 1969, the fully automatic water injection system for secondary recovery now being installed will be in operation. Neither the production nor reserves in Argentina are included in Company statistics.

On September 12, 1969, Cities Service acquired a 20% and 25% undivided interest respectively in a 926,000 acre and a 816,000 acre concession in the Mendoza area of Argentina. Exploration will be initiated immediately.

Offshore the Republic of South Africa, the Company's 25% joint interest well on a 2 million-acre contract area has been classified as a "first discovery" of gas by the South African government. Two separate zones were tested at a rate of 25 million and 10 million cubic feet per day, respectively. A second test well is scheduled later this year.

In the Java Sea, offshore Indonesia, Cities Service is the operator with a 33.3% interest in a 37.1 million-acre contract area. Geophysical surveys are being conducted and a contract has been signed for the drilling of the first test well in early 1970.

On September 4, 1969 Cities Service acquired a 30% undivided interest in 4,516,000 acres in the Hudson Bay area of Canada. Exploration activities are also being conducted in other foreign areas—including Argentina, Colombia, Northwest Territories in Canada, The Netherlands portion of the North Sea, New Guinea and Venezuela.

Oil and Gas Reserves

Cities Service estimates its domestic and Canadian proved gross reserves of crude oil, condensate and natural gas liquids to have been 1,257 million barrels as of December 31, 1968. Approximately 92% of the crude oil and condensate is recoverable from existing wells. Net reserves on the same date approximated 1,121 million barrels after deducting royalties and production payments. Approximately 13.4% of the gross reserves are located in the East Texas Field which currently accounts, due to proration, for approximately 4.4% of gross production. Secondary reserves are included for fields where secondary recovery operations are in various stages of development.

Cities Service's domestic and Canadian proved reserves of natural gas are estimated to be approximately 17.9 trillion cubic feet as of December 31, 1968. Of these reserves, 6.4 trillion cubic feet are under leaseholds and mineral interests and 11.5 trillion cubic feet are under gas purchase contracts, primarily to Cities Service Gas Company, a subsidiary.

No estimate of Athabasca oil sands or of Colorado oil shale reserves is included in any of the above.

Natural Gas Liquids

Cities Service participated in the operation of 67 natural gas processing plants—31 wholly and 36 partially owned—on June 30, 1969. Cities Service's daily net production from these plants averaged 80,200 barrels of natural gas liquids during the first six months of 1969.

Cities Service operates a natural gas liquids supply complex at Hutchinson, Kansas, with a designed daily capacity of 50,000 barrels, consisting of 609 miles of pipeline, a fractionation plant and substantial underground storage facilities. Hutchinson is the largest of the storage and supply points in the Cities Service natural gas liquids systems.

Another 50,000-barrel per day natural gas liquids supply complex is located at Lake Charles, Louisiana and consists of a fractionation plant and 156 miles of pipeline.

Two natural gas liquids plants were added during the first half of 1969. Modifications continue, where appropriate, to increase product recovery and efficiency in all plants.

Planning is underway for the construction of a fractionation plant at Mont Belvieu, Texas. The plant will have an initial capacity of 60,000 barrels per day of natural gas liquids. Completion of the facility is scheduled for early 1971.

The year 1969 represented the fourth year of operation for Cities Service owned LP-gas retail outlets. Retail LP-gas is a relatively modest program being developed in selected markets which complement Company LP-gas production and storage facilities. Retail LP-gas sales volume was 25 million gallons during the first six months of this year.

Refining

On June 30, 1969, Cities Service owned and operated two refineries with indicated crude oil capacity as follows:

Location	Capacity barrels per day
Lake Charles, Louisiana	185,000
East Chicago, Indiana	56,000
Total	241,000

Cit-Con Oil Corporation, in which Cities Service has a 65% interest, owns and operates a solvent refined lubricating oil and wax plant located adjacent to Cities Service's refinery at Lake Charles, Louisiana. This plant has a daily rated capacity of 10,000 barrels of lubricating oil base stocks.

As a result of a fire and explosion at the Lake Charles refinery on August 8, 1967, the crude thruput for the years 1967 and 1968 averaged considerably lower than capacity and past performance. The Lake Charles refinery is now at normal operating levels. Its crude capacity will be increased 20,000 barrels per day by the end of the third quarter of 1969.

Marketing

CITGO branded products are sold in 29 states along the East Coast, the Great Lakes region, in the South and in the District of Columbia. These products are marketed through approximately 9,500 service station outlets. Of these outlets, 40 are operated by Cities Service—the balance being operated by independent dealers and distributors under the CITGO brand. In the first six months of 1969, 35% of the Company's total automotive gasoline sales through all marketing channels were made through 3,300 of these service stations which were owned or under lease to Cities Service.

The decline in "Gasoline" and "Others" sales reflected in Operating Statistics is due, substantially, to the sale in 1964 of the Trafalgar refinery and associated marketing outlets in the provinces of Ontario and Quebec, Canada, the sale of the Ponca City, Oklahoma refinery and Midwest marketing outlets in 1966, the closing of the Linden, New Jersey asphalt refinery and the selective elimination of low profit sales outlets throughout the period.

Transportation

Raw materials and products are moved by tanker, pipeline, tank car, hopper and gondola car, truck and barge. Cities Service owned or held an interest in 18,013 miles of crude and products line as of December 31, 1968. On June 30, 1969 the Company owned or leased 1,912 tank cars and 530 hopper and gondola cars.

Natural Gas Transmission

Cities Service Gas Company purchases, transports and sells in interstate commerce, natural gas at wholesale prices to distributors and industrial customers located adjacent to its pipeline system.

The physical property consists of 7,522 miles of natural gas pipeline comprised of 4,968 miles in transmission service, 174 miles of storage and 2,380 miles of gathering pipelines. In order to gather, store, transport, and market the volumes of gas handled, 269,430 horsepower is required in its 58 compressor stations. Also included in the system are 10 underground natural gas storage reservoirs having an aggregate storage capacity of 145 billion cubic feet.

Gas is purchased in Kansas, Missouri, Oklahoma and Texas and sold in Kansas, Missouri, Nebraska, Oklahoma and Texas. The major sources of dry gas are the Texas Panhandle, Oklahoma Hugoton, and Kansas Hugoton Fields. The system's peak day capability was approximately 2.225 billion cubic feet on December 31, 1968.

Petrochemicals

A petrochemical complex is operated at Lake Charles, Louisiana. Plants are located in this complex with annual designed manufacturing capacities as follows:

Product	Designed Capacity—Annual
Butadiene	84,000 tons
Ethylene	400 million pounds
Propylene	320 million pounds
Cyclic Chemicals	25 million pounds
Orthoxylene	80 million pounds
Paraxylene	36 million pounds
Benzene	23 million gallons
Butyl Rubber	37,500 long tons

Cities Service owns approximately 28% of the stock in a company which operates an ethylene glycol plant with an annual capacity of 21 million gallons.

Construction has started on an ethylene-propylene facility which will increase annual capacity for production of ethylene by 500 million pounds and propylene by 300 million pounds.

Cities Service owns a 25% interest in PASA, Petroquimica Argentina, S. A., a petrochemical manufacturing company in the Republic of Argentina which produces synthetic rubber, benzene and chemical intermediates.

Carbon Black

Carbon black is used principally for compounding with rubber in the manufacture of tires and other rubber products and is also used in the paint and ink industries. Wholly owned plants for the production of carbon black are located in the United States, Canada and Europe as follows: El Dorado, Arkansas; Hickok, Kansas; Eola and North Bend, Louisiana; Tacony, Pennsylvania; Conroe and Seminole, Texas; Mojave, California; Hamilton, Ontario, Canada; and Four Ashes, Wolverhampton, England. Partly owned carbon black plants are located at Seagraves, Texas and in Europe, South America and the Far East as follows: Trecate, Italy; Rotterdam, The Netherlands; Hamburg, West Germany; Cubatao, Brazil; and Limay, Bataan, the Philippines.

Graphic Arts

Printing inks are manufactured at 21 locations in the United States, Canada and Puerto Rico. Printing presses and other equipment are produced at Philadelphia, Pennsylvania. Lithographic plates and supplies are manufactured at Cincinnati, Ohio.

Plastics

Cities Service owns a low density polyethylene resin plant at Lake Charles which has a capacity of approximately 80 million pounds per year. Construction is currently in progress for an additional 140 million pound per year facility.

Plastic housewares are manufactured at McKees Rocks, Pennsylvania and Tustin, California and are marketed nationally under the trade name "Festival". Polyethylene film and bags are produced at Norcross, Georgia. A new polyethylene film bag and molded housewares plant under construction at Kankakee, Illinois is partially completed with some lines being placed in operation. Cities Service also owns two plastic compounding plants.

Chemicals and Metals

Agricultural Chemicals

The Cities Service complex at East Tampa, Florida is one of the largest producers in the United States of high analysis phosphatic fertilizer materials—such as triple superphosphate, ammonium phosphates and phosphoric acid. This industrial complex includes a 125,000-ton per year anhydrous ammonia plant. At Lake Charles, Louisiana, the Company owns and operates a 140,000-ton per year anhydrous ammonia plant.

Design capacity of the phosphate rock mining and recovery facilities in Polk County, Florida is 2 million tons of phosphate rock per year. As of December 31, 1968, the reserves were estimated at 63 million tons of recoverable rock containing an average of 31.7% P_2O_5. The ratio of overburden to matrix in the properties to be mined during the next several years is estimated at 1.52 to 1 and the matrix is estimated to average 29.5% phosphate rock.

Other important raw materials, which presently are purchased, are sulfur, potash and certain nitrogenous materials, all considered to be in adequate supply for Cities Service's needs. Cities Service is self-sufficient in sulfur production, but because of freight costs sells the sulfuric acid produced in the Copperhill operation to others and buys sulfur from others for phosphate rock acidulation at the Tampa complex and the production of sulfuric acid at Augusta, Georgia.

Cities Service operates fertilizer plants at Cedartown, Georgia; Tuscaloosa, Attalla, Montgomery and Decatur, Alabama; and New Albany, Indiana. In addition, it operates 249 fertilizer bulk blending plants in the Midwest, Southeast and in western Texas.

Cities Service owns a majority interest in a phosphatic fertilizer, sulfuric acid and phosphoric acid plant in Cubatao, Brazil; a 68.7% interest in a mixed fertilizer blending plant in Corinto, Nicaragua; and a 49.65% interest in a Belgian company engaged in the production and marketing of nitrogen fertilizers.

The fertilizer industry is being adversely affected by a general condition of over capacity in terms of present demand.

Industrial Chemicals

Inorganic chemical products include sulfuric acid produced at Copperhill, Tennessee; East Tampa, Florida; Augusta, Georgia; and Lake Charles, Louisiana. In addition, the Copperhill complex produces liquid sulfur dioxide, copper chemicals, sodium hydrosulphite, secondary zinc oxide, ferric sulfate and a variety of sulfonation products. Aluminum sulfate also is produced at Augusta and Cedar Springs, Georgia and Fernandina Beach, Florida. Chemicals produced at East Tampa, other than plant foods, are sodium fluosilicates and hydrofluosilicic acid. Chlorosulfonic acid and potassium sulfate are produced at Lockland, Ohio and other specialized chemicals are produced at East Point, Georgia.

Metals

Ducktown Basin, Tennessee

Engineering studies are underway for a 25% expansion in operations along with extensive modernization of the Copperhill facilities. The limits of the ore body are not established but the proven reserves would sustain the increased rate for 20 years. The average ore mining rate for the past 5 years has been 1,565,996 tons per year. Beneficiation and smelting of this ore provides sulfur dioxide (which is converted into sulfuric acid), copper, iron sinter (approximately 68% iron), and zinc concentrate (approximately 60% zinc).

The operations at Copperhill were suspended on September 15, 1969 as a result of a strike. Negotiations between the Company and unions representing the employees are continuing.

Globe-Miami Mining District, Arizona

The Copper Cities and Diamond H open pit mines are estimated to have ore reserves (as of December 31, 1968) of 31 million tons of .55% ore—approximately 290 million pounds of recoverable copper. The average ore mining rate over the past 5 years was 3,427,372 tons per year. Copper is recovered from this ore by milling and flotation. The Copper Cities mine also currently produces annually 5 million pounds of copper by leaching and precipitation.

Leaching operations at the block-caved Miami mine currently produce 13 million pounds of copper annually. This rate will decline gradually over a number of years.

Leaching operations are also conducted at the Castle Dome property. Current production is one million pounds of copper annually which has declined to the point that this operation will be discontinued later this year.

Internal Consumption

A part of the copper produced is fabricated at Company owned plants into plate, sheet, strip and roll copper at Seymour, Connecticut and into insulated wire and cable at Chester, New York.

Approximately 12 million pounds of copper per year are used in the production of copper chemicals at Copperhill, Tennessee.

Exploration

On the Miami East project, in a down-faulted block of the Miami-Inspiration ore body, 6 holes drilled in 1969 have encountered copper mineralization at depths ranging from 2,460 to 3,300 feet.

The average thickness of mineralization is 465 feet containing 1.51% copper. The distance between the present extremities of the drilling is about 1,900 feet. It is estimated that 6 additional holes will be drilled by the end of this year.

During the past six years, 150 drill holes have proved the occurrence of widespread low grade copper mineralization in the immediate vicinity of the old Castle Dome mine, about 8 miles northwest of Miami, Arizona. A computer study of the data from this drilling is being made to optimize tonnage and grade of prospective ore and waste in order to evaluate the open pit mining feasibility of this project. Preliminary estimates indicate over 300,000,000 tons of possible ore containing .45% copper.

Cities Service has a 34% interest in Union Minera del Sur, S. A. de C. V., a Mexican company engaged in exploration for sulfur and other minerals in Mexico. A sulfur discovery by this company was announced on November 12, 1968.

A total of 60 holes has been drilled on two of the seven concession areas held. Sulfur with a net thickness of three feet or more has been encountered in 20 of the holes in two separate mineralized areas. Exploration indicates sulfur reserves exceeding 1,500,000 tons, but the full extent and value of the deposit is not known. Drilling is continuing.

Other Operations

Marine

The vessels comprising the marine fleet owned by Cities Service traveled 825 thousand miles and transported 24 million barrels of crude oil and petroleum products and 25,000 long tons of grain during the first six months of 1969. The 15 vessels in this fleet range in size from T-2 class to three 70,000-ton tankers. Total fleet tonnage is 610,000 deadweight tons. Cities Service tankers are in both foreign and domestic service and are used for Cities Service movements and for chartering to others, including the Military Sea Transport Service. Barges and shallow draft tankers are also chartered for domestic movements.

Helium

Cities Service owns and operates the Jayhawk Helium Plant 13 miles east of Ulysses, Kansas. The plant, located on a 200-acre site in the Hugoton natural gas field, processes in excess of 500 million cubic feet of natural gas daily for the extraction of crude helium. Pursuant to a firm contract with the United States Government, Cities Service for 22 years from 1961 will tender to the United States Government the helium output and the Government will pay for such helium, whether taken or not, at an initial price of $11.78 per Mcf, subject to escalation, but limited to a maximum amount of $9,100,000 annually. The General Accounting Office has filed a report with Congress recommending that certain helium supply contracts, including the Cities Service contract, negotiated by the Department of the Interior be amended to include provision for price redetermination. The results of such recommendation are indeterminable at this time.

The Jayhawk Plant also processes crude helium delivered by pipeline from the Company's 50% owned Sunflower Plant, located near Scott City, Kansas. The crude helium produced in excess of Government requirements is refined and sold either as a gas or liquid.

Real Estate

Cities Service owns several office buildings in the financial district of New York City. The more important buildings are those located at 52 Wall Street, 60 Wall Street and 70 Pine Street (also known as Sixty Wall Tower). The latter is located on land partly owned in fee and partly held under long-term lease; while the other buildings are located on land owned in fee.

Cities Service also owns a 50% interest in two office buildings under construction. In Atlanta, Georgia, a building is scheduled for completion in early 1970 in which Cities Service will lease approxi-

mately 50% of the space to house the Atlanta regional offices of three subsidiary companies. In Tulsa, Oklahoma, a building is scheduled for completion in early 1971 which will provide space for combining the headquarters offices of Cities Service Oil Company that are presently located in Bartlesville, Oklahoma and Tulsa. In addition, an adjoining block is being acquired to be developed commercially in conjunction with the new office building. Final plans for this property have not been developed.

The Company owns a 50% stock interest in Fort Wayne Bank Building, Inc., which is constructing a 26-story building in Fort Wayne, Indiana. The building is scheduled for completion in December 1969. Fort Wayne Bank Building, Inc. is a party to a suit against the original construction contractor and is a defendant in a counter suit.

Cities Service owns other vacant land for which developments are in various stages. No substantial investment by Cities Service is contemplated to accomplish the planned developments.

Research and Patents

A broad research and development program is conducted in exploration and production of oil and gas, petroleum products, petrochemicals, plastics, refining processes, carbon blacks, iron oxides, plant foods and metals. Emphasis is on developing and improving technology for upgrading feedstocks and increasing the profitability of existing facilities. Research laboratories are located at Cranbury, New Jersey; Swartz, Louisiana; and Tulsa, Oklahoma. Joint research is also conducted with other companies.

Cities Service has completed and occupies the major new additions to its 165-acre research center at Cranbury, New Jersey. Included in the complex are extensive research and pilot plant facilities housing the major research operations of Cities Service Research and Development Company, Cities Service Oil Company, Columbian Carbon Company and Tennessee Corporation together with the necessary administration and service facilities.

On August 20, 1969 Cities Service acquired General Technologies Corporation of Reston, Virginia. The acquisition, made by common stock, was valued at approximately $2.5 million. General Technologies is engaged in research, development and production of advanced high performance materials, including composites, mineral fibers and metal coatings.

Cities Service owns many United States patents and patents of other countries which are available to others under license arrangement, and also holds licenses under patents owned or controlled by others. Cities Service Company does not consider that the business of its subsidiaries is materially dependent upon any patent or group of patents.

Athabasca Oil Sands

Cities Service is represented in the Athabasca Oil Sands by a 30% interest in Syncrude Canada, Ltd. Syncrude's application for the construction of a commercial plant to commence production in 1976 of 80,000 barrels daily of synthetic crude and specialty products was approved September 17, 1969 by the provincial government of Alberta.

Employee Relations

Cities Service had approximately 23,700 employees on June 30, 1969 (including employees in foreign operations), a large number of whom have been with Cities Service 10 years or more. Approximately 45% of these employees are represented by various labor organizations covered by some 123 labor agreements with AFL-CIO affiliated unions, the United Auto Workers, the Teamsters Union or independent unions. In general, good labor relations have prevailed.

Cities Service has various employee benefit programs, including a Thrift Plan which provides eligible employees an opportunity to make systematic savings and retirement plans which provide for life income commencing at the time of retirement. A Qualified Stock Option Plan and an Incentive Compensation Plan are available for officers and certain key employees of Cities Service. There are

also available group insurance plans which provide life insurance and medical benefits. The Cities Service benefit plans are reviewed and amended from time to time so that they are competitive with similar plans of other companies in the various fields of Cities Service's operations. Cities Service makes substantial contributions to these benefit plans. Reference is made to note 11 of Notes to Financial Statements.

Competition

The petroleum industry is highly competitive in all its branches, both domestic and foreign, and competes with other industries in supplying fuel, energy and chemicals. Extensive competition also exists with respect to the products produced and sold by Columbian Carbon Company and Tennessee Corporation.

LITIGATION

Cities Service is a party to numerous legal proceedings, none of which is considered by it to be material except possibly the following:

In a rate proceeding filed in October 1963, by Cities Service Gas Company before the Federal Power Commission an issue was presented as to the allowable costs for gas purchased from Continental Gas Producing Company, which had been a Cities Service affiliate prior to 1963. On June 27, 1968, the Federal Power Commission ordered a reduction in the rates for gas purchased from Continental Gas Producing Company and ordered refund to the jurisdictional customers of Cities Service Gas Company. A judicial review of the decision is pending before the United States Court of Appeals for the Tenth Circuit. Should the decision of the Federal Power Commission prevail, the liability of Cities Service Gas Company on its obligation to refund could be as much as $16 million as of March 31, 1969. Reference is made to note 12(b) of Notes to Financial Statements.

In November 1966, a civil action entitled *Western Natural Gas Company, a Dissolved Delaware Corporation, and Henry O. Weaver, Trustee,* v. *Cities Service Gas Company* was commenced in the District Court, Oklahoma County, Oklahoma. Plaintiff alleges breach of contract and claims damages to the value of plaintiff's gas reserves allegedly caused by defendant's opposition to plaintiff's application to the Federal Power Commission for abandonment of gas service to defendant. Cities Service Gas Company denies and is opposing plaintiff's claims. On May 8, 1969, the jury returned a verdict in favor of the plaintiff in the amount of $5,026,626. The defendant will appeal. However, should plaintiff prevail, the liability of Cities Service Gas Company would be $5,026,626 plus interest at 10% per annum from the date of the judgment.

Counsel for Cities Service Company believes that Cities Service Company and its subsidiaries have valid defenses to the above-described proceedings and actions and Cities Service and its subsidiaries are actively opposing each proceeding and action.

OPERATING STATISTICS

The following listing is a statistical description of Cities Service. Historical statistics have been excluded from the text material for clarity of understanding and brevity of presentation:

	Year ended December 31					Six months ended June 30	
	1964	1965	1966	1967	1968	1968	1969
Petroleum							
Exploration and Development							
Net acreage held	9,681,000	15,397,000	19,033,000	29,473,000	30,885,000	31,044,000	30,930,000
Domestic	6,604,000	6,605,000	6,277,000	5,248,000	4,637,000	4,736,000	4,660,000
International	3,077,000	8,792,000	12,756,000	24,225,000	26,248,000	26,308,000	26,270,000
Net wells completed	304	310	231	213	162	71	77
Oil	165	136	116	96	89	37	33
Gas	60	60	47	46	30	13	13
Dry	79	114	68	71	43	21	31
Net wells producing	9,675	9,530	9,058	8,813	8,728	8,608	8,449
Oil	7,195	7,390	6,956	6,660	6,701	6,468	6,182
Gas	2,480	2,140	2,102	2,153	2,027	2,140	2,267
Production							
Total petroleum liquids—net bbls/day	150,000	153,200	164,700	179,600	188,700	183,300	203,000
Crude oil	105,100	103,700	109,700	112,900	117,600	115,800	122,800
Natural gas liquids	44,900	49,500	55,000	66,700	71,100	67,500	80,200
Natural gas—net Mcf/day	853,400	819,100	822,100	881,900	936,000	963,900	990,300
Refining							
Crude runs to stills—bbls/day	265,000	277,000	264,000	222,000	222,000	215,200	236,100
Company account	259,000	252,000	239,000	206,000	199,000	193,500	210,600
Processed for others	6,000	25,000	25,000	16,000	23,000	21,700	25,500
Marketing							
Sales—bbls/day	334,000	319,000	320,000	302,000	297,000	300,000	330,000
Gasoline	146,200	136,700	130,400	116,100	108,100	106,800	121,000
Distillates	87,000	87,400	90,400	84,100	82,100	88,100	92,000
Natural gas liquids	45,600	52,400	57,000	66,500	72,400	69,200	74,300
Others	55,200	42,500	42,200	35,300	34,400	35,900	42,700
Service station outlets	14,200	13,500	11,100	10,600	9,800	10,100	9,500
Transportation							
Pipeline deliveries for Company requirements—bbls/day	710,800	833,300	738,500	684,600	663,000	675,300	668,100
Natural Gas Transmission							
Sales—billion cubic feet	440	452	487	498	501	260	288
For ultimate residential use	175	179	191	192	196	114	122
For ultimate industrial use	265	273	296	306	305	146	166
Petrochemicals							
Sales—thousand pounds							
Butadiene	132,600	135,500	158,600	123,100	141,500	63,000	76,000
Ethylene	225,200	299,500	385,200	433,200	381,100	197,600	186,600
Propylene	178,800	212,400	285,700	269,500	311,700	160,500	177,200
Others	113,000	117,200	213,400	91,500	182,200	70,200	115,700
Total intermediates sales	649,600	764,600	1,042,900	917,300	1,016,500	491,300	555,500
Butyl rubber	17,300	38,000	43,600	43,700	39,100	20,500	27,800
Carbon black and related products	467,300	475,700	518,600	528,800	595,800	292,400	304,900
Printing inks and related products	73,700	76,300	81,500	81,900	85,200	41,500	41,500
Plastics and related products	43,400	50,400	51,300	133,400	183,100	83,700	81,300
Chemicals and Metals							
Sales—tons							
Sulfuric acid	905,300	888,000	945,600	976,300	1,114,400	569,000	562,600
Water treating chemicals	45,300	52,000	51,800	53,700	58,300	29,300	32,300
Other industrial chemicals	101,300	92,500	103,200	89,600	94,500	54,700	65,700
Copper	45,700	44,800	47,100	37,200	36,800	14,100	23,800
Iron sinter	741,100	687,400	643,100	440,000	449,300	233,800	264,400
Zinc concentrates	21,300	23,000	22,300	21,900	17,300	8,900	11,200
Agricultural chemicals	1,340,000	1,372,100	1,524,500	1,421,700	1,312,800	867,900	896,500
Fertilizer blending plants	—	27	83	208	232	221	249
Phosphate rock mined—thousand tons	—	—	—	342	1,008	520	676
Other Operations							
Marine							
Ocean tankers operated	15	15	15	15	15	15	15
Deadweight tonnage	591,007	591,007	591,007	605,023	609,935	609,935	609,935
Helium sales—thousand cubic feet	484,545	628,681	706,289	730,652	812,166	410,459	420,036
Government	484,545	628,681	706,169	729,167	759,436	387,306	360,903
Others	—	—	120	1,485	52,730	23,153	59,133

CAPITALIZATION

The capitalization of Cities Service as of July 31, 1969 and as adjusted (1) to give effect to the Exchange Offer, assuming all 2,370,000 shares of Atlantic Richfield Common Stock are exchanged for 4,740,000 outstanding shares of Cities Common Stock, and the reacquired shares of Cities Common Stock are cancelled as explained under "Pro Forma Effect of the Exchange and Related Transactions on Cities Service's Consolidated Financial Statements" and (2) for the issuance of $100,000,000 of 6⅝% Debentures with Warrants attached for the purchase of Atlantic Richfield Common Stock is as follows (thousands of dollars):

	Outstanding	Adjusted
Long-term debt (note a)		
Cities Service Company		
6⅛% Debentures due 1978 to 1997	$ 100,000	100,000
6⅝% Debentures due 1980 to 1999	—	100,000(d)
3% Sinking Fund Debentures due 1970 to 1977 (note b)	52,785	52,785
Note payable, 4½% due 1970 to 1974	4,400	4,400
	157,185	257,185
Subsidiaries—other than natural gas transmission companies		
Bonds and debentures, 3.35% to 5½% due 1970 to 1983	22,474	22,474
Purchase obligations, 3% to 7% due 1970 to 1986	1,195	1,195
Notes payable, 3⅝% to 6¾% due 1970 to 1982	120,364	120,364
	144,033	144,033
Subsidiaries—natural gas transmission companies		
First mortgage bonds, 3¼% to 4½% due 1970 to 1977	28,250	28,250
Total long-term debt	329,468	429,468
Minority interests in subsidiaries	7,553	7,553
Stockholders' equity (note c)		
$4.40 Cumulative Convertible Preferred Stock, without par value Authorized—293,894 shares; Issued—198,496 shares	3,315	3,315
$2.25 Cumulative Convertible Preference Stock, without par value Authorized—661,370 shares; Issued—584,316 shares	5,311	5,311
Common Stock, $5 par value Authorized—40,000,000 shares; Issued—30,598,769 shares before cancellation and 25,858,769 after cancellation	152,994	129,294
Capital surplus	66,576	79,250
Retained earnings	1,050,038	1,056,202(d)
Common Stock in treasury—476,275 shares	(18,814)	(18,814)
Total stockholders' equity	1,259,420	1,254,558(d)
Total capitalization	$1,596,441	1,691,579(d)

(a) Excludes $32,302 of current maturities and $17,374 of short-term debt.

(b) Excludes $499 debentures in treasury.

(c) See note 8 of Notes to Financial Statements for the number of shares of each class of capital stock reserved for future issuance at June 30, 1969.

(d) Reflects issuance in August 1969 of 6⅝% Debentures due 1999 with Warrants attached for the purchase of Atlantic Richfield Common Stock. The portion of the proceeds allocated to the Warrants (net of applicable expenses and income taxes) was recorded as an extraordinary credit to income and is included in retained earnings, total stockholders' equity and total capitalization in the "Adjusted" column.

Note—Reference is made to note 12(a) of Notes to Financial Statements for information as to rental obligations under long-term leases at June 30, 1969.

DESCRIPTION OF STOCK OF CITIES

A summary of the Preferred Stock, Preference Stock and Common Stock of Cities is set forth below and is taken from Article FOURTH of the Certificate of Incorporation of Cities. The summary relating to the Common Stock also summarizes certain provisions of the Indenture dated as of January 1, 1947 (the "Indenture") between Cities and Guaranty Trust Company of New York (now Morgan Guaranty Trust Company of New York), as Trustee, under which Cities' 3% Sinking Fund Debentures due 1977 (the "Debentures") were issued. The information below is qualified in its entirety by such references. Such summaries are exclusive of statute.

The Preferred Stock and Preference Stock are listed on the New York Stock Exchange and the Common Stock is listed on the New York, Boston and Midwest Stock Exchanges and is also traded on the Cincinnati, Detroit, Pacific Coast, Philadelphia-Baltimore-Washington and Pittsburgh Stock Exchanges.

$4.40 Cumulative Convertible Preferred Stock, Without Par Value

Dividend Rights. The holders of the Preferred Stock are entitled to receive, prior to the payment of any dividends on the Preference Stock and Common Stock for the corresponding period, cumulative cash dividends at the rate of $4.40 per share per annum, when and as declared, payable quarterly in the months of March, June, September and December of each year.

Voting Rights. Each holder of the Preferred Stock is entitled to two votes for each share held. Except as set forth below, the Preferred Stock, Preference Stock and Common Stock vote together as one class.

Special Voting Rights. If dividends are in arrears on the Preferred Stock in an aggregate amount at least equal to six quarterly dividends, then in such event the holders of the Preferred Stock voting as a class will be entitled to elect two directors until all arrears in dividends have been paid and dividends on the current quarterly period have been declared or paid. Consent of the holders of at least two-thirds of the Preferred Stock is necessary to:

(a) authorize any stock ranking prior to or convertible into the Preferred Stock;

(b) amend, alter or repeal any of the Preferred Stock provisions;

(c) sell, lease or convey all, or substantially all, of Cities' property or business, or voluntarily liquidate; or

(d) merge or consolidate, unless the survivor after the merger or consolidation will have no stock either authorized or outstanding (except such stock of Cities as may have been authorized or outstanding immediately preceding such merger or consolidation, or such stock of the resulting or surviving corporation as may be issued in exchange therefor) ranking prior to the Preferred Stock.

Liquidation Rights. Upon any voluntary or involuntary liquidation, dissolution or winding up and before any distribution shall be made to any other class of stock, the holders of the Preferred Stock shall be entitled to receive $100 per share plus all accrued and unpaid dividends. Reference is made to the statements under the sub-caption "Liquidation Value and Stated Value" set forth hereafter under this caption for a statement regarding the difference between liquidation value and stated value of the Preferred Stock.

Redemption Provisions. The Preferred Stock is callable for redemption at any time prior to January 1, 1971, in whole or in part, at the option of Cities on 30 days' notice at the redemption price of $104 per share, together with any accrued and unpaid dividends thereon to the date of redemption. On and after January 1, 1971, the redemption price reduces $1.00 per share during each two-year

period until December 31, 1976, and on and after January 1, 1977, the redemption price is $100 per share, together with, in each case, any accrued and unpaid dividends thereon to the date of redemption.

Conversion Rights. Each share of the Preferred Stock is convertible into Common Stock at the rate of 3.34 shares of Common Stock for each share of Preferred Stock. To protect against dilution, the conversion rate is subject to adjustment in the event of issuance of Common Stock at less than $30.50 per share or the creation of an obligation to issue Common Stock at less than $30.50 per share on other convertible securities outstanding (except for the issuance, on or after January 2, 1962, of 650,000 shares of Common Stock reserved for issuance pursuant to the Qualified Stock Option Plan of Cities), subdivisions of outstanding Common Stock, stock dividends, or a recapitalization, consolidation or merger. No adjustment in respect of dividends will be made upon conversion. No fractional shares will be issued, but any fractions shall be adjusted in cash, unless the Board of Directors of Cities shall determine to adjust them by the issuance of fractional scrip certificates or in some other manner. The dollar or share figures in this paragraph have been adjusted to reflect the two-for-one split of the Common Stock of Cities in 1965.

General. The Preferred Stock is not liable for further calls or subject to assessment.

$2.25 Cumulative Convertible Preference Stock, Without Par Value

Dividend Rights. Subject to the preferential rights of the Preferred Stock, the holders of the Preference Stock are entitled to receive, prior to the payment of any dividends on the Common Stock for the corresponding period, cumulative cash dividends at the rate of $2.25 per share per annum, when and as declared, payable quarterly in the months of March, June, September and December of each year.

Voting Rights. Each holder of the Preference Stock is entitled to two votes for each share held. Except as set forth below and except as set forth above as to the special voting rights of the Preferred Stock, Preference Stock and Common Stock vote together as one class.

Special Voting Rights. If dividends are in arrears on the Preference Stock in an aggregate amount at least equal to six quarterly dividends, then in such event the holders of the Preference Stock voting as a class will be entitled to elect three directors until all arrears in dividends have been paid and dividends on the current quarterly period have been declared or paid.

Consent of the holders of at least two-thirds of the Preference Stock is necessary to authorize or increase the authorized number of shares of stock ranking prior to the Preference Stock or to alter, change or repeal the voting powers or designations, preferences or relative, participating, optional, or other special rights of the Preference Stock or any preferences or rights which might adversely affect the Preference Stock.

Consent of the holders of at least a majority of the Preference Stock is necessary to increase the authorized number of shares of Preference Stock or to authorize or increase the authorized number of shares of any stock ranking on a parity with the Preference Stock or for effecting or validating the sale, lease or conveyance of all or substantially all of Cities' property or business, or for the voluntary liquidation, dissolution or winding up of Cities, or the merger or consolidation of Cities unless the survivor after the merger or consolidation will have no stock either authorized or outstanding (except such stock of Cities as may have been authorized or outstanding immediately preceding such merger or consolidation, or such stock of the resulting or surviving corporation as may be issued in exchange therefor) ranking prior to the Preference Stock.

However, irrespective ot the foregoing, the number of votes per share of the Preferred Stock may be increased from two votes per share to four votes per share with the consent of only at least a majority of the holders of the Preference Stock and Common Stock, voting together as one class, and the requisite consent of the Preferred Stock.

Liquidation Rights. Upon any voluntary or involuntary liquidation, dissolution or winding up, after distribution to the holders of the Preferred Stock of $100 per share plus all accrued and unpaid dividends and before any distribution shall be made to the Common Stock, the holders of the Preference Stock shall be entitled to receive $50 per share plus all accrued and unpaid dividends. Reference is made to the statements under the sub-caption "Liquidation Value and Stated Value" set forth hereafter under this caption for a statement regarding the difference between liquidation value and stated value of the Preference Stock.

Redemption Provisions. The Preference Stock is callable for redemption on and after January 1, 1970 and prior to January 1, 1972, in whole or in part, at the option of Cities on 30 days' notice at the redemption price of $52.50 per share, together with any accrued and unpaid dividends thereon to the date of redemption. On and after January 1, 1972, the redemption price reduces 50¢ per share during each two-year period until December 31, 1979, and on and after January 1, 1980, the redemption price is $50 per share, together with, in each case, any accrued and unpaid dividends thereon to the date of redemption.

Conversion Rights. Each share of the Preference Stock is convertible into Common Stock at the rate of 1.818 shares of Common Stock for each share of Preference Stock. To protect against dilution, the conversion rate is subject to adjustment in the event of issuance of Common Stock at less than $27.50 per share or the creation of an obligation to issue Common Stock at less than $27.50 per share on other convertible securities outstanding other than the Preferred Stock (except for the issuance of 647,800 shares of Common Stock reserved for issuance pursuant to the Qualified Stock Option Plan of Cities), subdivisions of outstanding Common Stock, stock dividends, or a recapitalization, consolidation or merger. No adjustment in respect of dividends will be made upon conversion. No fractional shares will be issued, but any fractions shall be adjusted in cash, unless the Board of Directors of Cities shall determine to adjust them by the issuance of fractional scrip certificates or in some other manner. The dollar or share figures in this paragraph have been adjusted to reflect the two-for-one split of the Common Stock of Cities in 1965.

General. The Preference Stock is not liable for further calls or subject to assessment.

Common Stock, $5 Par Value

Dividend Rights. Subject to the preferential rights of the Preferred Stock and Preference Stock, the Board of Directors of Cities may declare and Cities may pay dividends on the Common Stock out of any surplus or net profits legally available therefor. However, the Indenture provides that, so long as any of the Debentures are outstanding, Cities will not declare or pay any cash dividends on the Common Stock except out of the earned surplus accumulated subsequent to December 31, 1946, computed and adjusted as therein provided. The earned surplus of Cities and of Cities and subsidiaries as of June 30, 1969 was $1,059,337,000, of which approximately $443,800,000 was restricted as to the payment of cash dividends.

Voting Rights. The holders of the Common Stock are entitled to one vote for each share held and vote together with the holders of the Preferred Stock and Preference Stock and with the holders of any other stock given the similar right to vote, as one class, for the election of Directors of Cities and for all other purposes, except as set forth above as to the special voting rights of the Preferred Stock and Preference Stock.

Liquidation Rights. In the event of liquidation there shall be distributed to the holders of the Common Stock the assets remaining after all payments due have been made to the holders of then outstanding shares of Preferred Stock and Preference Stock.

General. The Common Stock is not subject to redemption, has no conversion rights and is not liable to further calls or to assessment. The only restriction on the repurchase by Cities of its Common Stock is that funds or property of Cities cannot be used for such purpose when such use would cause any impairment of its capital.

Pre-emptive Rights

The right of any holder of Preferred Stock, Preference Stock or Common Stock to subscribe for new or additional shares thereof shall be as the Board of Directors of Cities shall determine and no such holder shall have any such right unless expressly granted by the Board of Directors of Cities.

Liquidation Value and Stated Value

The Preferred Stock and Preference Stock are no par value stocks. Upon liquidation, the Preferred Stock shall be entitled to receive $100 per share plus all accrued and unpaid dividends. The stated value of the Preferred Stock is $16.70 per share. Upon liquidation, the Preference Stock shall be entitled to receive, after distribution to the holders of the Preferred Stock, $50 per share plus all accrued and unpaid dividends. The stated value of the Preference Stock is $9.09 per share. As a result thereof, the liquidation values of the Preferred and Preference Stocks exceed the stated values thereof by $83.30 and $40.91, respectively, which differences, based upon the number of shares outstanding at June 30, 1969 aggregate $40,885,000. In the opinion of counsel for Cities, the capital of Cities is the aggregate par value of the issued Common Stock plus the stated value of the Preferred Stock and Preference Stock, with the excess of the total net assets of Cities over the amount determined to be capital being surplus; there are no restrictions upon surplus by reason of the excess of the liquidation values of the Preferred Stock or the Preference Stock over their stated values; and there are no remedies available to any security holders before or after payment of any dividends that would reduce surplus to an amount less than the amount of such excess. The capital attributable to Common Stock and capital surplus at June 30, 1969, which is not available for the payment of dividends, aggregates approximately $200,000,000. In the opinion of Cities, upon any liquidation, the proceeds received from such liquidation would be in excess of the stated value of the assets of Cities on its books by an amount more than sufficient to cover the difference between the figures set forth under this sub-caption.

INDEX TO FINANCIAL STATEMENTS OF CITIES SERVICE

ACCOUNTANTS' REPORT

The Board of Directors and Stockholders
CITIES SERVICE COMPANY:

We have examined the financial statements of Cities Service Company and Cities Service Company and subsidiaries as listed in the accompanying index, so far as they relate to the years ended December 31, 1968. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Cities Service Company and of the Company and subsidiaries at December 31, 1968, and the results of their operations for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.
February 24, 1969

CITIES SERVICE COMPANY

CITIES SERVICE COMPANY AND SUBSIDIARIES

BALANCE SHEETS

(Stated in thousands of dollars)

ASSETS

	Company		Consolidated	
	Dec. 31, 1968	June 30, 1969 (Unaudited)	Dec. 31, 1968	June 30, 1969 (Unaudited)
Current assets				
Cash	$ 6,961	3,608	25,700	22,841
Short-term cash investments, at cost (approximates market value)	47,936	72,583	79,823	101,364
Trade accounts receivable, less provision for bad debts (consolidated: 1968—$2,719; 1969—$3,607)	1,811	1,877	172,338	183,091
Accounts and notes receivable—consolidated subsidiaries (interest bearing: 1968—$72,425; 1969—$45,608)	72,639	45,957	—	—
Other accounts and notes receivable, less provision for bad debts (consolidated: 1968—$11; 1969—$26)	1,060	275	27,634	18,677
Inventories of petroleum and other products, and merchandise (note 2)	64	64	152,789	144,363
Materials and supplies (note 2)	—	—	27,468	27,699
Prepaid expenses	527	436	11,634	12,053
Total current assets	130,998	124,800	497,386	510,088
Investments and sundry assets				
Securities of consolidated subsidiaries, at equity	1,142,402	1,188,596	—	—
Advances to consolidated subsidiaries	67,693	68,975	—	—
Securities of unconsolidated foreign subsidiaries, at equity	318	518	3,712	3,827
Advances to unconsolidated foreign subsidiaries, less reserve (consolidated: 1968—$100; 1969—$150)	—	—	15,464	14,215
Atlantic Richfield Company common stock, at cost (current quoted market value approximates $549,000)	29,807	29,807	29,807	29,807
Other securities, less reserve (1968—$7,536; 1969—$7,102)	15,421	15,856	27,150	27,128
Other advances, less reserve (consolidated: 1968—$2,215; 1969—$2,448)	2,573	2,473	4,257	4,430
Accounts and notes receivable—not current, less reserve (Company: 1968—$10,871; 1969—$10,861, Consolidated: 1968—$10,900; 1969—$10,904)	229	144	17,506	24,191
	1,258,443	1,306,369	97,896	103,598
Property, plant and equipment, at cost (note 3)	26,211	27,586	2,453,848	2,501,364
Less accumulated depreciation and depletion (note 4)	7,611	7,749	1,182,263	1,216,736
	18,600	19,837	1,271,585	1,284,628
Deferred charges (including Federal income taxes—Company: 1968—$1,925; 1969—$1,851—note 6)	3,692	3,708	5,591	8,041
	$1,411,733	1,454,714	1,872,458	1,906,355

See accompanying Notes to Financial Statements.

CITIES SERVICE COMPANY

CITIES SERVICE COMPANY AND SUBSIDIARIES

BALANCE SHEETS

(Stated in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY

	Company		Consolidated	
	Dec. 31, 1968	June 30, 1969 (Unaudited)	Dec. 31, 1968	June 30, 1969 (Unaudited)
Current liabilities				
Notes payable and long-term debt maturing within one year, less securities in treasury: 1968—$1,496; 1969—$1,500	$ 1,104	1,100	55,962	52,357
Trade accounts payable	1,412	1,483	89,586	79,395
Accounts and notes payable—consolidated subsidiaries	7,771	10,015	—	—
Other accounts payable	4,928	5,423	25,730	27,783
Accrued liabilities				
Interest	1,042	1,023	4,433	2,799
Taxes	608	512	13,897	17,301
Payrolls	—	—	3,229	3,340
Other charges	3,601	3,289	28,109	33,042
Federal and foreign income taxes	3,735	5,900	19,297	34,508
Total current liabilities	24,201	28,745	240,243	250,525
Long-term debt (note 5)	158,984	157,319	348,362	331,939
Other credits				
Deferred Federal income taxes (note 6)	—	—	33,597	41,055
Proceeds from sale of future production	—	—	14,279	6,670
	—	—	47,876	47,725
Minority interests in subsidiaries (note 7)	—	—	7,429	7,516
Stockholders' equity				
Capital stock (notes 8 and 9)				
$4.40 Cumulative Convertible Preferred Stock	3,625	3,350	3,625	3,350
$2.25 Cumulative Convertible Preference Stock	7,569	5,372	7,569	5,372
Common Stock	150,308	152,879	150,308	152,879
Capital surplus	64,422	66,451	64,422	66,451
Retained earnings (note 10)	1,022,395	1,059,337	1,022,395	1,059,337
	1,248,319	1,287,389	1,248,319	1,287,389
Less Common Stock in treasury, at cost (note 8)	19,771	18,739	19,771	18,739
Total stockholders' equity	1,228,548	1,268,650	1,228,548	1,268,650
Contractual and contingent liabilities (note 12)				
	$1,411,733	1,454,714	1,872,458	1,906,355

See accompanying Notes to Financial Statements.

CITIES SERVICE COMPANY

STATEMENTS OF INCOME

(Stated in thousands of dollars)

	Year ended December 31 1966	1967	1968	Six months ended June 30, 1969 (Unaudited)
Gross income				
Sales and operating income				
Consolidated subsidiaries	$ 2,363	3,878	4,084	2,216
Others	6,067	8,929	8,718	4,532
	8,430	12,807	12,802	6,748
Other income				
Equity in income				
Consolidated subsidiaries	114,500	107,608	104,589	57,836
Unconsolidated subsidiaries	—	—	420	205
50%-owned companies	—	870	630	345
Dividends on securities	15,577	16,556	13,423	7,868
Interest income				
Consolidated subsidiaries	2,495	2,463	5,678	2,492
Short-term cash investments	7,045	4,063	3,767	2,579
Other investments	830	828	239	703
Gain (loss) on sale of assets, miscellaneous interest and other income—net	(1,558)	434	1,119	841
	138,889	132,822	129,865	72,869
	147,319	145,629	142,667	79,617
Costs and expenses				
Costs and operating expenses	1,901	3,212	3,246	1,559
General and administrative expenses	13,143	13,311	12,667	5,695
Provision for loss on investment in a consolidated subsidiary	4,122	—	—	—
Taxes, other than Federal income taxes	1,635	1,915	2,265	1,160
Depreciation and depletion	444	814	853	580
Dry holes and lease cancellations	238	157	219	108
Interest paid to consolidated subsidiaries	5,004	1,049	28	—
Other interest expense	2,975	3,130	8,140	4,013
Federal income taxes (note 6)				
Current—less adjustments arising from filing of consolidated returns	961	(3,252)	(3,206)	(2,325)
Deferred	(3,234)	(2,543)	(2,881)	77
	27,189	17,793	21,331	10,867
Income before extraordinary credit	120,130	127,836	121,336	68,750
Extraordinary credit—gain by subsidiary on sales of assets, less income taxes of $12,047	21,664	—	—	—
Net income	$141,794	127,836	121,336	68,750

Notes:

The above statements should be read only in conjunction with the accompanying Statements of Consolidated Income. See accompanying Notes to Financial Statements.

CITIES SERVICE COMPANY

CITIES SERVICE COMPANY AND SUBSIDIARIES

STATEMENTS OF RETAINED EARNINGS AND CAPITAL SURPLUS

(Stated in thousands of dollars)

	Year ended December 31			Six months ended
	1966	1967	1968	June 30, 1969 (Unaudited)
RETAINED EARNINGS				
AMOUNT AT BEGINNING OF PERIOD	$803,152	892,635	962,827	1,022,395
Net income	141,794	127,836	121,336	68,750
Cost of treasury stock (less related par value and capital surplus) issued in exchange for properties	(2,324)	(2,044)	—	(776)
	942,622	1,018,427	1,084,163	1,090,369
Dividends paid				
Preferred	2,188	1,385	1,069	456
Preference	3,012	2,352	1,993	908
Common	44,787	51,863	58,706	29,668
	49,987	55,600	61,768	31,032
AMOUNT AT END OF PERIOD (note 10)	$892,635	962,827	1,022,395	1,059,337
CAPITAL SURPLUS				
AMOUNT AT BEGINNING OF PERIOD	$54,250	57,650	61,678	64,422
Credit (net) resulting from issuance of treasury stock in exchange for properties	2,549	3,027	—	1,290
Excess of proceeds over assigned value of stock issued on exercise of options	907	1,011	2,743	716
Excess of proceeds over cost of treasury stock issued under incentive compensation plan	—	22	24	36
Excess of payments for fractional shares over assigned value thereof arising from conversion of Preferred and Preference Stocks into Common Stock	(56)	(32)	(23)	(13)
AMOUNT AT END OF PERIOD	$57,650	61,678	64,422	66,451

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

(Stated in thousands of dollars)

(1) Principles of consolidation and related matters

(a) The consolidated financial statements include the accounts of Cities Service Company, all domestic subsidiaries and significant foreign subsidiaries. Investments in unconsolidated foreign subsidiaries and 50% owned companies, which companies when considered in the aggregate as a single unit would not constitute a significant subsidiary, are stated at equity in the underlying net assets with appropriate provision for the possibility of less than full realization of such equity. Cities Service's interest in the current earnings of such companies, less taxes estimated to be payable upon distribution, is included in consolidated income. Prior to 1967, investments in unconsolidated foreign subsidiaries were carried at cost. The effect of the change to equity accounting for these investments was nominal.

(b) Cities Service Company uses the equity method of accounting for investments in its subsidiaries. The undistributed earnings of consolidated subsidiaries at the end of each year was as follows: 1966—$455,786; 1967—$533,449 and 1968—$602,013 and at June 30, 1969—$647,519. The capital surplus of consolidated subsidiaries was the same amount, $16,397, at the end of each period shown in the statement of capital surplus.

(c) Foreign currency items, which are not material, have been converted into United States dollars at the appropriate rates of exchange; the net unrealized profit or loss on such conversions was insignificant.

(2) Inventories

(a) Inventories of petroleum and other products are stated at cost, principally under the last-in, first-out method of cost determination, which is substantially lower than current cost or market. Crude oil costs comprise production and purchases at average posted prices plus gathering and transportation charges at published tariff rates. The amount of interdepartmental and intercompany profit included in the inventories of crude oil, and petroleum and other products cannot readily be ascertained; however, the effect of such profit on income in each of the years included in the statements of consolidated income has been insignificant.

(b) Merchandise held for resale, and materials and supplies are stated generally on the basis of average cost less allowance for condition in the case of reclaimed or salvaged material.

(c) Inventories at the beginning and end of the periods affecting income are shown below:

	December 31				June 30, 1969
	1965	1966	1967	1968	(Unaudited)
Company					
Crude oil	$44	67	74	64	64
Consolidated					
Crude oil	$ 12,342	12,065	11,756	11,909	14,631
Petroleum products	96,153	74,458	82,260	85,585	78,050
Other products	31,921	41,914	52,932	53,611	50,272
Merchandise held for resale	1,306	1,162	1,456	1,684	1,410
	$141,722	129,599	148,404	152,789	144,363

NOTES TO FINANCIAL STATEMENTS—(Continued)

(Stated in thousands of dollars)

(3) Property, plant and equipment

Property, plant and equipment consist of the following:

	Company		Consolidated	
	Dec. 31, 1968	June 30, 1969 (Unaudited)	Dec. 31, 1968	June 30, 1969 (Unaudited)
Petroleum:				
Production	$23,253	24,301	856,788	857,873
Natural gas liquids	—	—	161,613	171,491
Transportation	—	—	36,879	37,047
Refining	—	—	313,683	312,812
Marketing	—	—	218,795	228,866
Crude oil supply	—	—	5,420	5,663
Total petroleum	23,253	24,301	1,593,178	1,613,752
Natural gas transmission	—	—	298,578	305,578
Petrochemicals	—	—	201,062	212,419
Chemicals and metals	—	—	196,574	202,455
Other operations	2,958	3,285	164,456	167,160
Total	$26,211	27,586	2,453,848	2,501,364

(4) Depreciation and depletion policy

(a) Depreciation and depletion of producing oil and gas properties (including intangible drilling costs which are capitalized for accounting purposes) are provided for on the unit-of-production method based upon estimates of recoverable reserves made by the geological and engineering staff. Dry hole and lease cancellation costs are charged against income. Development costs on mining properties are charged to expense as incurred in lieu of providing depletion on the original cost of such properties.

(b) Depreciation of other than producing properties is provided on the basis of age and estimated useful lives of the properties, generally by the straight-line method.

(c) Expenditures on maintenance and repairs are charged to operations as incurred, while expenditures on renewals and betterments generally are capitalized.

(d) When major items of property are retired or otherwise disposed of, the cost and related accumulated depreciation, depletion and amortization are eliminated from the accounts and the resulting gain or loss is reflected in income. In general, the cost less salvage value of minor items of depreciable property disposed of is charged to accumulated depreciation but in the case of certain subsidiaries the resultant gain or loss is included in income.

(5) Long-term debt

Long-term debt is summarized as follows:

	Dec. 31, 1968	June 30, 1969 (Unaudited)
Cities Service Company		
6⅛% Debentures due 1978 to 1997	$100,000	100,000
3% Sinking Fund Debentures due 1970 to 1977	54,034	52,919
Note payable, 4½% due 1970 to 1974	4,950	4,400
	158,984	157,319
Subsidiaries—other than natural gas transmission companies		
Bonds and debentures, 3.35% to 5½% due 1970 to 1983	24,045	22,627
Purchase obligations, 3% to 7% due 1970 to 1986	1,506	922
Notes payable, 3⅝% to 6¾% due 1970 to 1982	132,152	122,821
	157,703	146,370
Subsidiaries—natural gas transmission companies		
First mortgage bonds, 3¼% to 4½% due 1970 to 1977	31,500	28,250
Notes payable, 4⅝% due 1970	175	—
	31,675	28,250
Total	$348,362	331,939

The maturities of the foregoing long-term debt at June 30, 1969 are as follows: 1970 (last six months)—$11,811; 1971—$51,669; 1972—$27,454; 1973—$26,787; 1974 to 1997—$214,218.

NOTES TO FINANCIAL STATEMENTS—(Continued)

(Stated in thousands of dollars except per share figures)

(6) Federal income taxes

The Company and its subsidiaries record in income and as deferred Federal income taxes amounts equivalent to the tax effect of using differing methods of recording certain income and expense items for tax and financial accounting purposes. The differences relate primarily to depreciation, installment sales of property, sale of future production and incentive compensation.

Consolidated Federal income tax expense has been reduced by flow through of investment credits as follows: 1964—$4,800; 1965—$7,000; 1966—$5,000; 1967—$7,900; 1968—$9,000; and for the six months ended June 30, 1968 and 1969—$4,200 and $2,700, respectively.

(7) Minority interests in subsidiaries

The minority interests in subsidiaries consist of the following:

	Dec. 31, 1968	June 30, 1969 (Unaudited)
Capital stocks	$4,197	$4,110
Retained earnings and capital surplus	3,232	3,406
Total	$7,429	$7,516

(8) Capital stock

Information regarding capital stock follows:

	Preferred	Preference	Common
Assigned or par value per share	$16.70	$9.09	$5.00
Shares authorized			
December 31, 1968	310,621	906,399	40,000,000
June 30, 1969	293,894	661,370	40,000,000
Shares issued, including in treasury			
December 31, 1968	217,075	832,745	30,061,750
June 30, 1969	200,589	590,972	30,575,813
Shares in treasury			
December 31, 1968	—	—	500,782
June 30, 1969	—	—	474,675
Shares reserved for issuance			
Upon conversion of Preferred Stock			
December 31, 1968	—	—	725,030
June 30, 1969	—	—	669,967
Upon conversion of Preference Stock			
December 31, 1968	—	—	1,513,930
June 30, 1969	—	—	1,074,387
Under various stock option plans			
December 31, 1968	321	33,175	752,941
June 30, 1969	80	29,919	732,313
Shares of Common Stock into which convertible	3.34	1.818	—
Value per share			
Upon call	$104.00(a)	$52.50(b)	—
Upon liquidation	100.00	50.00	—
Aggregate value upon liquidation			
December 31, 1968	21,707	41,637	—
June 30, 1969	20,059	29,549	—

(a) Callable during 1969-70, and at reducing amounts thereafter to $100.00 in 1977.

(b) Callable during 1970-1, and at reducing amounts thereafter to $50.00 in 1980.

The aggregate preference of the Preferred and Preference Stocks on involuntary liquidation (based on $100 per share and $50 per share, respectively) exceeds the aggregate assigned value thereof by $52,100 at December 31, 1968 and $40,885 at June 30, 1969. In the opinion of counsel for Cities Service Company, such excess imposes no restriction on retained earnings.

NOTES TO FINANCIAL STATEMENTS—(Continued)

(Stated in thousands of dollars except per share figures)

(9) Stock option and incentive compensation plans

Under the qualified stock option plan of Cities Service Company, options may be granted to purchase shares of the Company's Common Stock at prices not less than the fair market value at date of grant. The options are exercisable over varying periods commencing twelve to eighteen months after grant. Those issued prior to 1964 expire ten years after grant and those issued subsequently expire five years after grant. Under the plan the authority to grant 363,349 unoptioned shares terminated on March 6, 1968. By action of the stockholders on April 30, 1968, options for 350,000 shares were authorized for future grant. All such shares were unoptioned at June 30, 1969.

Information regarding the options which were granted in 1966 (277,796 shares), 1967 (1,500 shares less 3,017 terminated), 1968 (54,000 shares less 14,333 shares terminated), and during the first six months of 1969 (no options granted, 934 shares terminated) is as follows:

	Number of shares	Option price		Market value	
		Per share	Total	Per share	Total
Unoptioned at December 31, 1968 and June 30, 1969	350,000				
Balance under option					
December 31, 1968	341,449	$25.38–50.06	$16,479	$25.38–50.06(a)	$16,479
June 30, 1969	327,570	25.38–50.06	15,870	25.38–50.06(a)	15,870
Options first exercisable					
1966	14,578	31.00–38.25	534	45.50–46.25(b)	665
1967	107,173	31.00–50.06	5,166	46.75–52.50(b)	5,453
1968	105,836	31.00–50.06	5,100	55.25–63.37(b)	5,888
Six months ended June 30, 1969	20,964	31.00–48.38	962	56.63–65.00(b)	1,338
Options exercised					
1966	25,468	25.38–36.63	665	41.25–54.25(c)	1,215
1967	22,744	25.38–50.06	637	45.25–55.50(c)	1,135
1968	69,574	25.38–50.06	2,535	46.75–82.25(c)	4,123
Six months ended June 30, 1969	12,945	25.38–50.06	563	57.50–77.00(c)	885

(a) At dates options were granted.

(b) At dates options became exercisable.

(c) At dates options were exercised.

Under various stock plans of companies acquired by Cities Service Company, certain qualified employees have rights to purchase Convertible Preferred and Preference, and Common Stocks; however, no further rights may be granted thereunder. At June 30, 1969, assuming 100% conversion, 54,743 shares of the Company's Common Stock were subject to purchase at varying prices, the major portion being at the lower of 85% of market value at date of assignment of right or date of purchase. Expressed in equivalent common shares, rights were terminated as to: 1966—2,792 shares, 1967—144 shares, 1968—242 shares, and first six months 1969—24 shares; and were exercised as to: 1966—13,073 shares, 1967—17,599 shares, 1968—18,009 shares, and first six months 1969—6,724 shares at aggregate amounts of $416, $557, $618 and $250, respectively.

The excess of proceeds over the assigned value or par value of the stock issued under the plans is credited to capital surplus; no charge is made to income with respect to these options.

The incentive compensation plan which became effective in 1966 provides for the establishment of a reserve by annual credits not to exceed 10% of the cash dividends paid by the Company or specified percentages of net earnings in excess of capital, all as defined in the plan. Awards may be granted out of the reserve, payable in cash or stock, to key employees of the Company and its subsidiaries. Subject to certain limitations, amounts not awarded may be carried forward to future years. The amounts credited to the reserve were as follows: 1966—$3,400; 1967—$3,700; 1968—$1,600; and first six months 1968 and 1969—$1,051 and $1,098, respectively.

NOTES TO FINANCIAL STATEMENTS—(Continued)

(Stated in thousands of dollars)

(10) Retained earnings

Approximately $415,900 of retained earnings at December 31, 1968 and $443,800 at June 30, 1969 were restricted as to the payment of cash dividends under trust indentures and other agreements of the various subsidiaries.

(11) Pension plans

Cities Service Company and its subsidiaries have several pension plans which provide for monthly payments for life to eligible employees upon reaching retirement age. The cost of current service benefits generally is shared by the employees and the companies, but the cost of past service benefits is borne by the companies alone. Charges to operations by the Company and its subsidiaries under the various plans were as follows:

	Company	Consolidated
1966	$513	$10,200
1967	371	9,800
1968	441	11,900
Six months ended June 30, 1968	221	5,500
Six months ended June 30, 1969	212	6,100

Charges to operations for pension costs increased in 1968 due to liberalization of benefits under certain of the plans and also to increases in employee payroll and employee participation in the pension plans.

Pension cost is funded as accrued. Pension fund assets at June 30, 1969 were in excess of the actuarially computed value of vested benefits for all plans as of that date. The unfunded prior service cost at June 30, 1969 approximated $30,400, most of which is being amortized over a period of thirty years ending in 1996.

Effective July 1, 1969 the Company amended its principal pension plan to increase employer contributions and to decrease employee contributions with no reduction in benefits under the plan. This amendment will result in an increase in charges to operations for pension costs of approximately $1,000 for the year 1969.

(12) Contractual and contingent liabilities

(a) The minimum annual rentals under noncancelable long-term leases at June 30, 1969 approximate $13,300 (without regard to reduction for related rental income), of which $3,200 pertain to leases which contain options to purchase the underlying properties. A substantial portion of the long-term leases, which relate principally to marketing properties, expires within a period of nine years.

(b) A subsidiary is purchasing under contract and reselling to its customers gas produced from certain properties sold by the Company to an unrelated party in 1963. On June 27, 1968, the Federal Power Commission issued an order reducing, effective as of April 1964, the subsidiary's allowed cost of service with respect to this purchased gas. The order, which relates the adjustment in the subsidiary's rates to the sale of the properties, requires refunds and will also result in reduced future rates. If ultimately sustained, the effect of the order will be accounted for as an adjustment of the profit initially recorded on the sale of the properties. The order is being appealed.

(c) The Company and certain subsidiaries at June 30, 1969 have guaranteed debt obligations of approximately $14,600 owed by companies in which substantial stock investments are held. Also, under long-term agreements with certain pipeline companies in which stock interests are held, the Company and its subsidiaries have agreed to provide minimum revenues for product shipments or purchases. It is not anticipated that any loss will result from such agreements.

(d) Various suits and claims arising in the ordinary course of business are pending against the Company and its subsidiaries, some of which involve substantial amounts. While the ultimate effect of such litigation cannot be ascertained at this time, in the opinion of counsel for the Company the liabilities which may arise from such actions would not result in losses which would materially affect the financial position of the companies involved. For further information regarding claims and litigation pending reference is made to the caption "Litigation" appearing elsewhere herein.

NOTES TO FINANCIAL STATEMENTS—(Continued)

(Stated in thousands of dollars)

(13) Supplementary profit and loss information

	Year ended December 31 1966	1967	1968	Six months ended June 30, 1969 (Unaudited)
Amounts charged directly to costs and expenses				
Company				
Maintenance and repairs				
Costs and operating expenses	$ 881	592	648	469
General and administrative expenses	82	54	50	29
	963	646	698	498
Depreciation and depletion	444	814	853	580
Taxes, other than Federal and foreign income taxes				
Real and personal property	549	593	633	345
Gas and oil production	550	816	818	433
Federal and state payroll	139	154	172	122
State income	9	6	6	3
Miscellaneous	388	346	636	257
Total taxes	1,635	1,915	2,265	1,160
Rents	1,580	1,593	1,716	851
Royalties	—	—	—	—
Consolidated				
Maintenance and repairs				
Costs and operating expenses	$65,950	64,857	68,833	31,987
Selling, general and administrative expenses	7,653	8,717	8,754	4,105
	73,603	73,574	77,587	36,092
Depreciation and depletion	88,299	88,603	100,261	49,482
Taxes, other than Federal and foreign income taxes				
Real and personal property	20,766	22,409	23,128	12,443
Gas and oil production	6,364	6,834	7,622	4,030
Federal and state payroll	4,705	6,514	7,581	4,494
State income	3,555	2,141	2,066	921
Miscellaneous	3,973	3,500	4,641	2,307
Total taxes	39,363	41,398	45,038	24,195
Rents	23,013	28,166	26,248	10,926
Royalties	667	723	748	383

There were no significant charges, in respect of maintenance and repairs, depreciation, taxes, rents or royalties, to other than income accounts.

There were no charges in respect of management and service contract fees. Rents do not include amounts paid as delay rentals in lieu of drilling on oil and gas leases; and royalties do not include oil, gas and mineral royalties which are accounted for in kind.

LEGAL OPINIONS

Legal matters for Atlantic Richfield in connection with the Atlantic Richfield stock offered hereby are being passed upon by Henry B. Weaver, Esq., General Counsel of Atlantic Richfield. Legal matters in connection with the Exchange Offer are being passed upon for Cities by Frueauff, Farrell, Sullivan & Bryan, 60 Wall Street, New York, New York and by C. V. Wheeler, Esq., General Counsel of Cities Service Company, and for the Dealer Managers by Sullivan & Cromwell, 48 Wall Street, New York, New York.

EXPERTS

The consolidated financial statements and schedules of Atlantic Richfield and the information contained herein under the heading "Consolidated Statement of Income of Atlantic Richfield" have been examined by Lybrand, Ross Bros. & Montgomery, independent certified public accountants, as set forth in their reports which are based in part on the reports of Arthur Young & Company and Price Waterhouse & Co., independent certified public accountants. The statements and schedules mentioned above are included in reliance upon such reports of these firms appearing elsewhere herein and upon the authority of such firms as experts in accounting and auditing.

The letter of February 17, 1969 from DeGolyer and MacNaughton, and the information from the letter of July 17, 1968 from that firm included under "Business and Properties of Atlantic Richfield Company" have been included herein in reliance upon the opinion and the authority of that firm as experts.

The financial statements of Cities included herein and the schedules of Cities incorporated by reference in the Registration Statement, so far as they pertain to the five years ended December 31, 1968, have been included herein or incorporated by reference in the Registration Statement in reliance upon the reports of Peat, Marwick, Mitchell & Co., independent certified public accountants, and upon the authority of said firm as experts.

APPENDIX

Additional Information Relating to Federal Income Tax Consequences of the Exchange

The Commissioner of Internal Revenue, by letter dated August 23, 1967, issued the following rulings with respect to the proposed Exchange Offer:*

"(1) Pursuant to the provisions of section 311(a) of the Internal Revenue Code of 1954, no gain or loss, or income, will be recognized to Company as a result of the proposed redemption of a portion of its stock, as described above.

"(2) If subsection (b)(1), (b)(2), or (b)(3) of section 302 applies to a distribution of Atlantic preference stock in redemption of Company common stock, such distribution will constitute a distribution in part or full payment in exchange for the Company common stock. However, no opinion is expressed as to whether section 302 applies to the distribution.

"(3) If section 302 does apply to the distribution, then, as provided by section 1001, gain or loss will be realized by the shareholders of Company measured by the difference between the fair market value of the property received and the adjusted basis of the stock surrendered as determined under section 1011. Provided section 341 (relating to collapsible corporations) is not applicable and that the stock is a capital asset in the hands of the shareholders, the gain, if any, will be recognized and will constitute capital gain subject to the provisions and limitations of Subchapter P of Chapter 1. The loss, if any, will constitute capital loss subject to the provisions and limitations of Subchapter P of Chapter 1.

"(4) The sale of a fractional share interest of Atlantic preference stock by an agent on behalf of a shareholder of the Company will result in gain or loss to the shareholder measured by the difference between the basis of the fractional share and the proceeds of the sale. Provided the fractional share interest constitutes a capital asset in the hands of the shareholder, the gain or loss will constitute capital gain or loss in accordance with the provisions and limitations of Subchapter P of Chapter 1."

The above-mentioned letter of the Commissioner of Internal Revenue was supplemented by a letter from him, dated June 6, 1968, confirming that the rulings quoted above "will remain in full force and effect" even though Cities were to invite tenders for less than all the shares "of the Atlantic stock it held". In November, 1968, Cities converted its holdings of shares of the preference stock of Atlantic into shares of the common stock of Atlantic.

Cities has been advised by its counsel, Frueauff, Farrell, Sullivan & Bryan, that pursuant to paragraphs (1), (2) and (3) of Section 302(b) of the Code, capital gain or loss will be realized by an exchanging stockholder if the transaction (1) "is not essentially equivalent to a dividend" or (2) has the effect of reducing the stockholder's proportionate interest in Cities stock following the exchange to an amount less than 80% of the proportionate interest of such stockholder prior to such exchange or (3) terminates completely the stockholder's interest in Cities stock (taking into account in each case the constructive ownership rules discussed below). Cities has been further advised by its counsel that Section 341 of the Code, relating to "collapsible corporations", will not apply to exchanges by Cities stockholders.

Counsel for Cities expects that all exchanges by stockholders will qualify for capital gains treatment under one or more of paragraphs (1), (2) or (3) of subsection (b) of Section 302 of the Code. However, unqualified assurances cannot be given to each stockholder in advance of the exchange that his particular exchange will qualify under paragraph (1) of Section 302(b) (which relates to distributions not essentially equivalent to a dividend), as the test of paragraph (1) is stated in general terms and the extent of partic-

* In the quoted rulings the word "Company" refers to Cities Service Company.

ipation by other holders of Cities Common Stock in the exchange cannot be known in advance. On the other hand, the tests of paragraphs (2) and (3) of Section 302(b), which relate respectively to a substantially disproportionate redemption and a redemption involving a termination of a stockholder's interest, are specific, and a holder of Cities Common Stock may make his tender of Cities Common Stock in such fashion as to make certain that his exchange will qualify under one or both of these paragraphs.

As the exchange of all shares of Atlantic Richfield Common Stock exchangeable pursuant to the Exchange Offer would reduce the total shares of Cities Common Stock outstanding by 4,740,000 shares, the test of paragraph (2) will be met by an exchange of 32.6% of the aggregate of all Cities stock (which will include at least 32.6% of Cities Common Stock) owned by the exchanging stockholder and deemed to be owned by him by reason of the application of the constructive ownership rules.

The constructive ownership rules applicable to paragraph (2) of subsection (b) of Section 302 require a holder of Cities Common Stock to take into account for the purpose of applying paragraph (2) not only Cities stock owned by him but also (i) Cities stock owned by his spouse, parents, children and grandchildren, (ii) a proportionate part of Cities stock owned by estates, trusts and partnerships in which he has an interest, (iii) a proportionate part of Cities stock owned by corporations in which he owns, directly or indirectly, 50% or more in value of the outstanding stock, (iv) Cities stock which he may acquire upon the exercise of an option and (v) in the case of a Cities stockholder which is a partnership, estate or trust or corporation, Cities stock owned, respectively, by its partners, beneficiaries or 50% shareholders. The constructive ownership rules are also applicable to paragraph (3) of Section 302(b) except that if Section 302 (c)(2) applies (which Section in general relates not only to a termination of stock interest but also an agreement to refrain for ten years from any other interest except as creditor), the stockholder is not treated as owning stock owned by members of his family referred to under clause (i) of the preceding sentence.

Cities has been advised by its counsel that no gain or loss will be recognized by, and no amount will be included in the income of, a holder of shares of Cities Preferred Stock or Preference Stock by reason of the conversion of shares of either of these stocks into shares of Cities Common Stock except that any gain or loss realized with respect to any receipt of cash in lieu of a fractional interest in Cities Common Stock may be recognized. Cities has been similarly advised that, for purposes of computing gain or loss upon an exchange for shares of Atlantic Richfield Common Stock pursuant to the Exchange Offer of shares of the Cities Common Stock which the holder will have acquired upon the conversion of shares of Cities Preferred Stock or Preference Stock, (i) the basis for such shares of Cities Common Stock will be determined by reference to the basis of the holder in the shares of Cities Preferred Stock or Preference Stock which the holder converted and (ii) the holding period for such shares of Cities Common Stock (except in the case of dealers holding as such) will include the period for which the holder held such shares of Cities Preferred Stock or Preference Stock.

Until November 10, 1969, all dealers effecting transactions in the registered securities, whether or not participating in the Exchange Offer, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as Underwriters or otherwise in connection with the Exchange Offer.

CONTENTS

No person has been authorized to give any information or make any representations not contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by Atlantic Richfield Company, Cities Service Company or either Dealer Manager. The delivery of this Prospectus does not imply that the information herein is correct as of any time subsequent to its date.

All information other than that contained under the heading "Atlantic Richfield Company" and the information and market data on Atlantic Richfield Common Stock and the financial statements included in the Atlantic Richfield financial statements, was furnished by Cities to Atlantic Richfield for inclusion in this Prospectus.

ATLANTIC RICHFIELD COMPANY

2,370,000 Shares

Atlantic Richfield Company

Common Stock
(Par Value $5 Per Share)

Exchange Offer to Holders of Common Stock of Cities Service Company

PROSPECTUS

Dated October 1, 1969

17. TRANSFER AGENTS

The Chase Manhattan Bank (National Association), New York, N.Y.

The Fidelity Bank, Philadelphia, Pennsylvania.

The First National Bank of Chicago, Chicago, Illinois.

Security Pacific National Bank, Los Angeles, California.

Montreal Trust Company, Toronto, Ontario.

18. TRANSFER FEE

No fee is charged on stock transfers other than the customary Government stock transfer taxes.

19. REGISTRARS

Chemical Bank, New York, N.Y.

The First Pennsylvania Banking and Trust Co., Philadelphia, Pennsylvania.

Bank of America National Trust and Savings Association, Los Angeles, California.

Continental Illinois National Bank & Trust Co. of Chicago, Chicago, Illinois.

National Trust Company, Limited, Toronto, Ontario.

20. AUDITORS

The auditors of the Company are: Lybrand, Ross Bros. & Montgomery, Certified Public Accountants, New York, N.Y.

21. OFFICERS

The Officers of the Company are listed on pages 33 and 34 of Exhibit 1 hereto.

22. DIRECTORS

The Directors of the Company are listed on page 33 of Exhibit 1 hereto.

CERTIFICATE

Pursuant to a resolution duly passed by its Board of Directors, Atlantic Richfield Company hereby applies for listing of the above-mentioned securities on The Toronto Stock Exchange, and the undersigned officers thereof hereby certify that the statements and representations made in this application and in the documents submitted in support thereof are true and correct.

ATLANTIC RICHFIELD COMPANY

Corporate Seal

Per: "RANDAL W. REED",
Financial Vice-President

Per: "R. G. NELSON",
Secretary

DISTRIBUTION OF COMMON STOCK AS OF NOVEMBER 13, 1969

Number			Shares
48,991	Holders of	1 — 24 share lots	552,377
49,333	" "	25 — 99 " "	2,453,001
18,959	" "	100 — 199 " "	2,324,542
7,984	" "	200 — 299 " "	2,087,486
4,790	" "	300 — 399 " "	1,252,491
3,193	" "	400 — 499 " "	834,994
3,237	" "	500 — 999 " "	2,106,702
2,802	" "	1000 — up " "	32,782,663
139,289	Shareholders	Total shares	44,394,256